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DEVELOPMENT DIGEST

A quarterly journal of excerpts, summaries, and reprints of current materials on economic and social development

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EXPORTS

SOME OF THE RECENTLY DEVELOPED EXPORT PRODUCTS OF THE REPUBLIC OF KOREA. (FROM ADVERTISEMENTS IN THE KOREA TRADE JOURNAL.)

Successful Export Development in Korea, 1963-68

Amicus Most

[The Korean export success story has some important lessons for other developing countries trying to sell their products abroad. Foreign aid was a factor, but, without appropriate domestic policies, Korean export expansion would never have been realized.]

The remarkable growth of exports from Korea between the years 1963 to 1968 was due to the planned activities of the Korean Government with the assistance of the U.S. Agency for International Development (AID), and the ingenuity, intelligence and enterprise of Korea's people and business community.

Korean exports were almost non-existent before 1959, and had risen to only $84 million in 1963. But by 1968 they reached $486 million, a 500 percent increase in five years, and over $600 million is projected for 1969. In 1968, manufactured items accounted for some 75 percent of total exports as compared to only 10 percent in 1959. Korea's market increased from 18 countries in 1956 to 76 in 1966, and the number of products exported rose from 42 to 621.

Preconditions

In the inflationary economy which had developed during and after the Korean War, the exchange rate was chronically overvalued and the possibilities for

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earning profits were much greater from domestic sales than from exports. In 1963 the Korean Government took strong fiscal and monetary measures to reduce the rate of inflation. From early 1962, the country had a multiple exchange rate system which approximated a realistic rate for exports, but not imports; in May 1964 the government established a unified and flexible market rate of exchange. This was accompanied by a removal of many import restrictions that forced Korean producers to be competitive, increased the supply and variety of production materials, and helped control prices. Until this stability and exchange rate realism were attained, an export drive would have had small prospect of success.

Korea had a small but rapidly developing entrepreneurial class that was thought capable of moving into fields of production for export. It included producers and traders or combinations of both. Chief reliance was placed on this group for development growth.

Steps taken in Export Development

1. Survey of production capabilities. A preliminary cursory survey of production capabilities was made, giving major importance to the availability of markets for the products to be produced. While it was evident that many domestic products could not at that time meet international competitive standards in price, quality, design, packaging, delivery time, etc., there seemed to be some items that could be developed to meet world market requirements. After careful study, a long list of priorities, incentives and export support institutions was made up.

2. Incentive measures. The Export Commission proposed the following credit and financial measures: (a) short-term, low-interest loans on Letters of Credit for purchasing domestic and imported raw materials for export products; (b) low-interest loans to permit credit sales abroad; (c) low-interest crop loans on agricultural and seafood products for export; (d) top priority to capital development and machinery loans for export expansion; (e) tax reductions on overseas promotional expenses; (f) reduction of local taxes on land, plant, or material costs used for development; (g) tax deductions for research and technical development; (h) elimination of all export taxes; (i) income tax reductions on profits made from new exports (therefore no loss in existing government revenue); (j) free entry allowances for raw materials and machinery used for re-export or export development through a "bonded warehouse" system (physically located in each factory). Almost all these measures were adopted eventually.

The question of what kind of incentives and subsidies, and how large these should be is a difficult one. The Koreans were aware

that subsidies constitute a cost, absorbing resources that could have been used for other investments or government spending; and that excessive subsidies can lead to a lowering of living standards if they are large enough to cause inefficient production. They were careful that their incentives (with very few exceptions, mostly concerning a few cases of excessive capacity) applied to all products, rather than giving larger subsidies to "high cost" than to "efficient" products and/or producers. Whether or not they achieved the most effective balance between incentives and efficiency is a matter of judgment, but they did try to achieve such a balance and the results in terms of both exports and economic growth have been impressive.

3. Support institutions. Necessary support institutions were created or improved to cope with the many related problems. These included: (a) The Korean Trade Promotion Corporation (KOTRA) was formed, of which more below. (b) The Korean Productivity Center was strengthened; considerable technical assistance was given to it and through it to producing factories. (c) An interagency committee was created to study, simplify and reduce the inordinate amount of paperwork and procedures that inhibited exporting, importing, travel, financing and customs procedures. (d) The Chamber of Commerce was legally authorized to establish an organization for international arbitration of disputes. (e) An educational program was initiated by the Chamber of Commerce, the Korean Traders Association, the Korean Businessmen's Association and other trade organizations to develop an understanding of international business methods and ethics. The Korean Traders Association and the Chamber of Commerce set up their own business ethics committee to formulate a code and to consider unethical conduct by any of their members. (f) The Korean Standards Bureau (a government agency) was improved to develop and protect quality standards and disseminate information to producers on international standards and specifications. (g) With AID assistance, a national materials research center was organized. (h) A national export inspection organization was set up. (i) The government opened two Industrial Parks, and made plans for new areas and possible "free trade" zones.

4. Export Commission. One of the chief factors in developing the program, in my opinion, was the creation of a high level, widely representative body to mobilize the private sector together with those government ministries and agencies involved in the export development process. In some countries, specialized organizations deal with limited objectives or unrelated single activities, such as trade promotion; elsewhere, there are committees whose membership consists exclusively of either government or business. In Korea, the Export Commission included seven Cabinet Ministers, Directors of a score of government and quasi-official agencies, bank officials, and Presidents of a half dozen private business associations.

However, the Commission never developed a separate staff; instead, a steering committee of two persons assigned problems to the appropriate parties to solve with their own staffs. As these private and governmental bodies became involved in such problem-solving, they became supporters and advocates of the export drive. The mere existence of a widely representative committee is, in itself, no help unless its operation is carried on with drive, persistence and good relations with top authority. But I believe this method of organizing, together with the vitality the organization developed, were a key factor in the Korean success story.

The Export Commission played an important role as a forum for discussion where ideas were sifted, organized and presented to the government. Because it was so all-inclusive it also was a vehicle which propagated ideas and made the whole program more dynamic. As more and more businessmen and government officials became interested and active in the export drive, more ideas were generated and put into practice at every level. Business travelers to and from the country brought ideas with them. Information sent in from the overseas offices of KOTRA were particularly important. Experience and activities required constant review and changes, and the Commission was able to react quickly to these.

5. Economic studies. Studies were undertaken to determine realistic levels of proposed export increases and the amount of financial resources required to attain these increases. On the basis of such studies government funds, bank credits and investment capital were assigned to the program. Since export development was given the highest priority, it was necessary in some instances to limit the resources allotted to other programs in order to meet the financial requirements of the export program.

6. Selling the program. At this point it became necessary to "sell" the program to the public and to the business community. A well publicized Presidential Announcement launched the program. Literally hundreds of meetings of businessmen were held and much publicity was developed in Seoul and other major cities of Korea. Prizes were given at ceremonial occasions for good performance. The Export Commission reported each month directly to President Park, who took a personal interest in its problems and activities.

Production Development

Since Korea had relatively few natural resources suitable for export goods, the program was built around the availability of inexpensive and intelligent labor. Efforts to increase exports of tungsten, coal, clay, seafood and agricultural products were not neglected, but the major thrust was in manufactured products.

Both a short-range and a long-range program were developed. The criteria for products in the short-range program included: high labor content; products for which labor could be quickly trained; utilization of any idle capacity; small capital investments; priority to products utilizing native raw materials; availability of international markets.

The last point was considered the most important. In many countries there has been a tendency to expand development of available products without giving sufficient attention to their marketability. It is interesting to note that in some instances markets were the determining factor even though all the other factors listed above were minimal. For example, Korea has developed a market for plywood, mostly in the United States. In 1967 approximately $36 million of plywood was exported, despite the fact that Korea has no timber, plywood manufacturing is a capital-intensive industry, and skilled labor is required. Another example is sweaters. Korea has developed a market for knit wear in Sweden of approximately $10 million per annum. The sweater market is now developed in other countries; but initially it was almost an accident that a sweater market was found in Sweden.

However, most of the products developed did follow the criteria established above. In general, the cheapest consumer products were avoided. Where automatic machine-produced articles are made on a large scale in the advanced countries, their labor content is small and the cost advantages of low-priced labor are almost nil. Korea, therefore, decided to develop its high-labor, consumer goods industries, featuring retail goods in the medium priced fields. Their promotion involved strenuous efforts to create the quality specifications demanded in this price range. Items such as wearing apparel and accessories, tires, batteries, musical instruments, textiles, yarn (especially silk), footwear, leather goods, human hair and wigs, eyeglass frames, radios, and similar manufactured goods were developed. Following successes in the indicated fields, Korea is now developing an electronics subassembly manufacturing industry, an all-purpose machine tool industry, and is producing other durable and semi-durable goods. These are in addition to the increased development of the processing of ores and agricultural and seafood products.

Market research and overseas visits by Koreans, as well as the visits of international buyers to Korea, helped develop the ideas for types of products that were marketable. As the knowledge of Korean products began spreading throughout the world, buyers would bring or send samples of their requirements to Korea as guides to Korean companies making similar products. In reverse, Korean companies would send samples of their products to the KOTRA representatives

overseas who would obtain critical analyses and pricing information which would be of assistance to the manufacturer.

Technical Assistance

A major factor in this development process was the massive input of technical assistance. It included assistance not only in engineering, factory level and office management, but also in marketing, finance, market research, salesmanship, trade missions, cost accounting, product design and packaging. Much of this assistance came from AID; help was also given from other countries, and from international organizations and private foundations. Teams of Korean technicians were sent to neighboring countries to study methods used.

Much good help also came from foreign private buyers interested in developing new sources of supplies. An American shoe importer supplied two technicians for two years to three shoe manufacturers. A French seafood importer furnished a full-time advisor to the shrimp processors. Others assisted a variety of consumer goods industries, including silk, shirts, electrical equipment, wigs, and sweaters.

Overseas Export Promotion

After the Koreans had begun to develop products that could meet international standards of price, quality, volume, time of delivery and cost, they undertook a massive promotion program. The government-financed KOTRA established offices in 14 major foreign cities and research representatives in approximately 20 others. It combined the job of seeking out customers with market research. It also participated in fairs, promotion work and other activities that would bring Korean products to the attention of buyers.

In addition, KOTRA, together with the Korean business community, brought to Korea a mission consisting of the top buying executives of major U.S. chain stores. It promoted Korean trade missions abroad and assisted individual Korean businessmen in their foreign selling trips. It advertised in trade magazines, had display rooms in each of its centers and published literature and newsletters to reach the international buying community.

On advice of the Export Commission, the government eliminated some of the paperwork bottlenecks, made travel arrangements easier and gave encouragement and incentives to companies wishing to promote their products overseas.

Foreign Investors

Private investment from the U. S. and Europe has had an influential role in Korean development. The large inflow of private capital and technical assistance from Japan following the "settlement" of 1965 also gave an important boost to the growth and export development at a most opportune time. A number of foreign companies in electronics, sweaters, hair goods and other fields either opened up their own plants or became partners in joint ventures with Korean companies. The electronics plants were particularly useful because they manufactured labor-intensive items, subassemblies which had their own built-in export market.

It is interesting to note, however, that it was only in 1966 that foreign investments in Korean manufacturing plants began to play an important part in the development of exports. Korean exports had reached $256 million by this time. The inflow of foreign investment has now risen to over $200 million a year. While all this will greatly help further development, it was not a part of the initial export drive which got started mainly without these foreign investments.

Effect of Vietnam War

It has been said that the Vietnam War played a major role in the development of Korean exports. Korea did benefit economically and obtained foreign exchange from soldier and civilian remittances, construction contracts and services. But in 1966-67 her commodity exports to Vietnam were only 3.9 percent of her total exports. Some help came by virtue of the fact that she manufactured jungle boots and fatigue uniforms and other items purchased by the U.S. for Vietnam. These industries were given the benefit of the technical assistance of the United States Armed Forces purchasing agencies, and were later able to utilize the skills developed to convert to civilian production. However, this only represented a minor part of the entire export development process.

Foreign Aid

Korea has been given a relatively high priority in U. S. aid programs, and local military spending has also helped support the economy. These factors are not fully transferable to other countries. If we consider total foreign inputs of resources, including private investments and government aid from all sources, these have been very substantial fractions of the national savings and investment totals, and they loom large in the balance of payments. On the other hand, it may be remembered that Korea was emerging from the damaging effects of a severe conflict.

What must be stressed is that no amount of external resources can do the developmental job unless internal policies are at work to mobilize whatever resources, foreign or domestic, are available to be employed. While outsiders helped, it was the Koreans themselves who developed and carried out their program. It was not easy for a country whose traditions and culture emphasize scholarly learning and philosophy to turn so rapidly to the methods of modern technology, marketing and development. Korea has, after some lag, achieved a high growth rate in its gross national product, which is admirable but not unique. What is of most interest for other developing countries is the special Korean achievement of translating its production into marketable exports on a growing scale, and especially into new types of products and new markets.

[An original article summarizing the author's Expanding Exports, A Case Study of the Korean Experience, a book available from AID on request.]

The Export Experience of Developing Countries

Barend A. De Vries

[The two leading factors in the widely varied export experience of developing countries in the postwar years have been their initial shares in world markets and the degree of outward or trade-oriented development policies.]

Among the problems that developing countries face in expanding their exports are the slow growth of world demand for many commodities which bulk large in their exports, and the fluctuations in volume and in the prices in important commodity markets. Most of the discussions on such commodity problems are concerned with the total problem as it affects all developing countries rather than with inter-country differences in the growth of exports. Yet these differences have been very marked, ranging from absolute declines in export earnings to substantial increases over the past 10-15 years. They are of central concern in the analysis of development performance and development finance. This report analyzes the dimensions of the differences in export growth of developing countries and attempts to relate them to characteristics of export supply and resource allocation policies.

Export Variations

Variations in export experience are indicated by a comparison, for 29 developing countries, of average annual data on exports in 1950-53 with averages for 1960-63. They cover a wide range, as summarized in Table 1.

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TABLE 1: Exports from 29 Developing Countries

	1950-53 average		1960-63 average		Annual Average Growth Rates (percent)		
	$ million (1)	per- cent (2)	$ million (3)	per- cent (4)	weighted (5)	un- weighted (6)	range (7)
Major exports	7,418.7	72.4	7,848.1	65.6	0.6	2.0	-6.5 to 10.9
Minor exports	2,825.5	27.6	4,111.8	34.4	3.8	5.9	-9.8 to 19.7
Total exports, 29 countries	10,244.2	100.0	11,959.9	100.0	1.6	2.8	-5.0 to 12.9

The averages for the growth rate have been computed in two ways: column 5 uses as weights the value of exports from countries; column 6 gives the same weight to each country. Column 7 gives the range of annual rates of change between 1950-53 and 1960-63 observed for individual countries.

The group of 29 countries includes most major developing countries for which trade data are available and which account for the greater part of development assistance. No attempt has been made to give the principal developing regions equal representation in the group of countries studied. Major petroleum exporters (e. g., Venezuela and Iran) are excluded, thus limiting the investigation to export differences other than those resulting from the petroleum bonanza.

A distinction is made between "major" and "minor" exports. Major exports are all commodities which account for over 5 percent of the exports of one or more of the developing countries in the group studied. For most of these commodities, world markets are fairly well organized. The distinction made here between major and minor exports is somewhat different from the usual one in discussions of trade policy, which divides exports into primary commodities and manufactures. Major exports as defined here include most primary commodities but also some manufactured items, e. g., textiles.

Minor exports, consisting of all items not included in the major category, are by definition relatively small in the export package of developing countries. The markets for these exports are not well organized internationally. One point brought out clearly in Table 1 is that minor exports have accounted for most of the postwar growth of exports of developing countries. The consensus in current discussion is that this is likely to continue in the next decade and—recognizing a limit of say 3-4 percent to the annual growth of pimary exports—the focus is on the possible growth of exports of manufactures. Here the growth of minor exports includes not only new manufactures but also new agricultural products, e. g., tomatoes from Mexico, mushrooms from Taiwan.

Trade Positions and Orientations

Changes in a country's exports must be viewed in relation to total markets to obtain a clear picture of the performance of one country

relative to others. The growth of exports should be gauged by the changes in a country's shares in its major commodity markets, which makes it possible to avoid giving "bad marks" to those countries that have suffered from deteriorating export prices and contracting or stagnating markets.

In the search for explanations of the variations in export growth, emphasis is given to the initial trade position of a country and to the trade orientation of development policies. A country's trade position can be measured simply by taking a value-weighted average of that country's volume shares in its major export commodity markets. The trade positions of countries may help to explain differences in the growth of exports of major commodities: the larger a country's trade share, the greater is the chance that a proportionate increase in its exports will upset the prevailing price structure, disturb the workings of an international commodity agreement, or call forth retaliation by competitors, so that having a large share of a market may inhibit further expansion.

The trade orientation of a country's development policies is not as easily defined and measured as its trade position. Broadly speaking, a distinction can be made between development policies with inward and those with outward orientation.

With inward orientation, countries will strive to diversify and expand their industrial production, with primary emphasis on the domestic market, substituting domestic goods for a wide and growing range of imports. There are many reasons and rationalizations for such a policy, including sluggish external demand for primary exports, insulation against external fluctuations, wartime shortages of manufactures, the drive toward a more urban economy, and the presumed advantages of manufacturing over primary production. New investments are steered toward manufacturing and away from agriculture. Usually the exchange rate, tariff, and trade restriction policies will turn the internal terms of trade against the agricultural or mineral sectors (which often are the main export suppliers). In the monetary sphere, the country will tend to assign only secondary importance to international price competitiveness; consequently, when industrialization is accompanied by inflation, the country will be slow in adjusting its exchange rate. All these policies are adverse to the growth or even maintenance of traditional exports, and the export of newly developed manufactures is likely to lag; meanwhile, the very successes in industrialization generate increased demands for imports of both consumer goods and raw materials. One acid test of success in industrialization is whether increase in export of manufactures can (at least) compensate for decline in primary exports.

Countries with the opposite policy—outward orientation—will, in their choice of new lines of production and the management of domestic prices, place greater, if not primary, importance on the prospects for exports and the maintenance of a competitive price level. Given the political, as well as technical, difficulties of frequent exchange rate adjustments, they will seek to maintain domestic price stability. More often than not, these countries will avoid heavy industrialization at the expense of agriculture and other primary production. Several countries that have adopted an outward orientation policy have achieved a marked increase in agricultural and mineral exports. When domestic price pressures do develop, these countries will tend to adjust their exchange rates more quickly than will countries with inward orientation.

There are, of course, many variations in policies among countries, and no classification can be clear-cut at a given moment or for an individual country over a period of time. Yet the combination of industrialization, domestic financial, exchange rate, and protection policies suggests that some countries, such as Brazil and Argentina, have had a predominantly inward orientation during much of the postwar period. And many smaller countries, with a greater degree of monetary stability and less emphasis on industrialization, have had a predominantly outward orientation as in Central America or Malaysia. Some smaller countries with outward orientation, e.g., Taiwan, Thailand, are industrializing but without building a heavy industry complex, and are experiencing a rapid increase in exports of manufactures.

Without identifying inward and outward orientation by precise measurements, it is possible to use a few statistical indicators to gauge certain major characteristics of development policies. A combination of steady price inflation and rapid increase in heavy manufacturing output will often indicate inward orientation. Conversely, a relatively high rate of agricultural growth and price stability may be indicative of outward orientation.

Statistical Comparisons

Considerable differences in the growth of exports are noted when the countries are grouped by their position in international trade, and degree of price inflation. A country's position in international trade depends on its share in world markets for its major exports and the relative importance of these commodities in its export total. This position is measured here by an index (W) which is the weighted average of a country's shares in the markets of its major export commodities, the weights being the proportion of these exports in the country's total exports. The index reflects not only the shares of a country's exports in world totals, but also the extent to which its exports are concentrated in a few commodities.

The characterization of price inflation is based on the average annual price increase of the 29 developing countries during the period 1950-63; that average was 9.3 percent. Countries with an average price increase above 9.3 percent are grouped as having relative price inflation; the others are grouped as experiencing relative price stability.

Table 2 shows that minor exports grew faster than major exports in all groups of countries. The growth of minor exports was larger in the sub-groups which also had relatively favorable growth rates for major exports (e.g., compare row 2 with 3, and 4 with 5).

TABLE 2: Variations between 1950-53 and 1960-63 in Export Earnings (current U.S. dollars)

	Total position index (W) in 1950-53	Percentage change in annual export earnings		
		Total	Major	Minor
1. All 29 countries	11.74	2.83	2.04	5.87
2. Countries with above-average W (10)	24.24	.38	-.59	4.25
3. Countries with below-average W (19)	5.15	4.13	3.43	6.73
4. Countries with relative price inflation (7)	11.53	.17	.17	.20
5. Countries with relative price stability (21)	12.27	3.60	2.50	7.78

The sharpest contrast in the growth of major exports is between country groups classified according to their trade position index (W); the contrast between rows 2 and 3 appears sharper than that between rows 4 and 5. Countries with relatively large trade position indices experienced declines in their major exports. While this is partly a reflection of the higher prices and trade levels during the Korean war boom, it is noteworthy that countries with small trade position indices experienced growth averaging 3.4 percent per annum beyond the Korean war levels.

Minor exports clearly did better in countries with relative price stability (compare rows 4 and 5). The contrast is much sharper than that observed for minor exports in countries grouped by their trade position index (rows 2 and 3). Major exports also fared better where there was price stability, but the contrast is not as sharp as that for minor exports. The countries with above-average price increases had trade position indices somewhat below those of countries with greater price stability.

Exports of Individual Countries

Variations in earnings from major exports are caused by the movements of volume and price in world markets which affect

countries in different ways because of the differing compositions of exports. A relatively simple way to calculate export growth differences other than those caused by external market movements is to take the value of a country's actual earnings from major exports in 1960-63 minus what the earnings would have been if the country's shares in its principal commodity markets in 1960-63 had been the same as in 1950-53. This difference, D_c, is shown in Table 3. The variations in D_c are striking: from shortfalls of $232 million for Brazil and $187 million for India to an excess of $178 million for Peru.

TABLE 3: Estimated Variations in Earnings from Major, Minor, and Total Exports, 1960-63 Annual Averages

Country	D_c	D_m	D	D	D_1	D_2
	$ million			as percent of exports	$ million	
	(1)	(2)	(3)	(4)	(5)	(6)
Countries with both D_c (major) and D_m (minor) positive						
Jamaica	24.3	54.7	79.0	44.2	12.6	41.3
El Salvador	35.0	21.7	56.7	43.1	5.4	18.3
Nicaragua	21.8	10.4	32.2	43.1	-3.8	12.7
China (Taiwan)	4.9	86.5	91.4	40.2	12.6	14.1
Peru	178.2	2.8	181.0	36.1	26.2	-50.9
Greece	42.9	28.0	70.9	29.3	-1.6	19.6
United Arab Republic	32.5	71.2	103.7	21.5	29.3	47.7
Ethiopia	12.8	3.1	15.9	19.9	n.a.	n.a.
Mexico	16.8	126.2	143.0	16.3	9.9	145.4
Ecuador	17.8	0.1	17.9	12.7	-0.8	12.9
Malaysia	51.5	44.3	95.8	10.8	-115.5	146.2
Nigeria	45.2	0.1	45.3	9.2	21.6	-33.2
Countries with positive D_c and negative D_m						
Guatemala	17.7	-2.9	14.8	11.8	-2.5	1.0
Ceylon	21.7	-19.7	2.0	0.5	n.a.	n.a.
Countries with negative D_c and positive D_m						
Thailand	-14.5	98.5	84.0	18.6	n.a.	n.a.
Philippines	-13.2	47.7	34.5	5.9	28.8	-0.0
Colombia	-77.9	26.6	-51.3	-11.3	2.7	24.9
Panama	-10.1	3.7	-6.4	-15.5	-2.7	13.9
Brazil	-231.9	6.2	-225.7	-17.1	15.3	18.4
Costa Rica	-29.2	6.7	-22.5	-25.1	2.0	2.6
Pakistan	-154.4	34.3	-120.1	-29.9	n.a.	n.a.
Honduras	-34.2	11.1	-23.1	-30.7	-7.0	18.0
Countries with both D_c and D_m negative						
India	-186.5	-124.0	-310.5	-21.6	192.4	-290.8
Turkey	-64.7	-26.1	-90.8	-25.6	-28.0	-48.9
Argentina	-76.7	-299.5	-376.2	-32.5	-143.6	-75.4
Chile	-80.8	-100.2	-181.0	-35.1	-160.7	-20.0
Paraguay	-8.2	-7.8	-16.0	-48.8	-10.2	3.7
Bolivia	-25.4	-18.4	-43.8	-59.3	-9.2	-19.5
Uruguay	-65.4	-85.2	-150.6	-96.7	-45.1	-73.0

To compare the growth of minor exports, a less refined gauge is used: deviations from the group average of the growth rate for minor exports. D_m is the difference between a country's annual earnings from minor exports in 1960-63 and the earnings that would have been attained if the country's minor exports had grown at the rate achieved by the minor exports of 29 countries taken together—5.9 percent per annum. Here again, remarkable differences are noted: they vary from shortfalls of $300 million for Argentina and $124 million for India to excesses of $86 million for Taiwan, $98 million for Thailand, and $126 million for Mexico.

D, the sum of D_c and D_m, is a yardstick for comparing the growth of total exports. To get an overall measure of export performance

comparable for large and small countries, the D values are given as percentages of actual 1962-63 exports. [Countries are lined up by this measure in Table 3, see column 4.]

If deviations from the group average in minor exports (D_m) are separated into manufactured (D_1) and other (D_2) goods, comparison of these two categories brings out sharp variations in growth rates, as shown in columns 5 and 6 of Table 3. [Note: D_1 and D_2 values do not add up to the D_m values because each is a deviation from its own separate group average.] Several countries with growth rates that were above average for exports of manufactured goods showed below-average growth for non-manufactured goods, and vice versa. For a majority of countries with above-average performance in minor exports, growth was concentrated in categories other than manufactured goods: of the countries whose D_m was more than 40 percent of annual average exports in 1962-63, export growth for manufactured goods exceeded that of non-manufactures for two (Jamaica and Taiwan), but the reverse was true for six (El Salvador, Honduras, Panama, Colombia, the United Arab Republic, and Ecuador).

Countries Benefiting Most from Rapidly Expanding Trade

When a country's major markets suffer from stagnation, its export earnings will compare unfavorably with those of others even if it manages to improve its market shares, and the opposite is true of growing markets. In the period studied, the most rapid growth in export earnings was achieved by those countries which captured a higher share of "buoyant" markets, and these success stories are of interest.

This point is of considerable importance because of the striking variations in the growth of world exports of the different commodities studied. The range was wide—from a net market contraction of 42 percent for lead to an expansion of more than 250 percent for timber, bauxite, and fishmeal. For present purposes, "buoyant" commodities are defined as those whose world exports (in current dollar values) increased more than "minor" exports, i.e., by over 45 percent, in the period covered. These were hazelnuts, pulses, maize, petroleum, iron ore, beef and veal, tropical hardwood, bauxite, fishmeal, silver, copper, and currants, grapes, and raisins.

Of the 29 countries studied, only six improved their shares in buoyant commodity markets. In the case of a seventh country, the Philippines, the value of its tropical hardwood exports increased considerably faster than the value of world tropical hardwood exports even though in volume terms its share of the world market

declined. Four of these seven countries (Jamaica, Malaysia, Peru, and the Philippines) also had above-average growth in minor exports. These countries tended to have two crucial characteristics operating at the same time. First, for most of the commodities concerned they had very small world market shares at the start (1950-53) of the period. In addition, they had better-than-average price stability, an annual average price increase of 4.1 percent compared with 9.3 percent for the 29 countries.

The three other countries—Argentina, Chile, and Turkey—had below-average growth in minor exports. The market shares at the start of the period for the major commodities of these countries were large for Argentine beef (24 percent) and Turkish hazelnuts (64 percent), and small for Chilean iron ore (4 percent). In these situations, special factors are likely to have accounted for the better-than-average growth in buoyant major commodity markets. On balance, it would seem that a combination of small world market shares and the key characteristics of export-minded policy augur well for a country's chance of cashing in on the potentials of rapidly growing commodity markets. But there remains, of course, room for special situations—and, it might be added, luck.

Conclusions

The study indicates that domestic price inflation tended to deter the performance of minor exports, but was not associated with the performance of major exports. Changes in exports over 1950-63 appeared to be associated with countries' shares in the markets of major commodities in the initial years: exports which comprised a small share of the world market tended to experience relatively favorable growth and, in this respect, behaved like minor exports which expanded considerably faster than major exports.

Most of the developing countries have a relatively small share in the markets of major commodities and also relatively small domestic markets. For these countries, a policy of encouraging exports seems clearly indicated. Outward orientation need not exclude industrialization or an expansion of exports of manufactures. The countries which have had success with industrialization under outward orientation policies (e.g., Jamaica, Taiwan, and Thailand), have not attempted to produce intermediate goods (e.g., steel) but have relied on imports of industrial raw materials and intermediate products for the output and export of finished goods, including labor-intensive capital goods. Where such a strategy of industrialization has been induced by the scarcity of natural resources, an initial obstacle to development has been turned into an economic advantage. For both minor and major exports, the greatest improvement was achieved by countries which had small external market positions and a policy of outward orientation.

Countries with relatively small domestic markets and sizable shares of certain world markets (such as Ceylon, Colombia, and Malaysia) are faced with what appears to be a serious problem: external factors may make export expansion relatively difficult, and domestic factors limit the possibilities for industrialization based on the country's own market. Only a few countries are lucky enough to have relatively large domestic markets on which to base their industrialization and an export package in which no commodity accounts for a large share. The present study indicates that countries in these two categories have pursued widely varying policies and experienced considerable differences in their export growth.

For the few countries whose domestic markets are large enough to serve as a base for diversified domestic industry and whose external market positions suggest limitations on the expansion of the markets for their export commodities (e.g., Brazil, India, and Mexico), emphasis on industrialization oriented toward the domestic market would seem to be appropriate. Most countries in this category have, in fact, embarked on industrialization programs, but their export experience, especially in regard to minor exports, has varied greatly, depending particularly on domestic price and agricultural policies.

In this study, the characterization of development policy has been confined to a few major indicators, and the classification of countries by size and trade position has omitted many elements of importance in determining growth. Subject to these reservations, it seems that in the majority of cases studied a country's orientation policy is part and parcel of its basic trade and development problem as reflected in its economic size and international trade position. The majority of countries with small domestic markets and small trade position indices have policies that are predominantly outward. In contrast, those countries characterized by relatively large domestic markets and large trade positions tend to pursue inward orientation policies. For countries in either of these groups, "policy" seems more circumscribed than is often assumed in economic analysis; external market position and domestic market size are very influential.

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Exports of Manufactures from Less Developed Countries

Hal B. Lary

[Given the present state of world trade, if less developed countries are to increase their foreign exchange earnings, they will have to expand their exports of manufactured or semi-manufactured products. Their comparative advantage seems to lie in labor-intensive manufactures, and their markets in the developed countries.]

It seems to be generally agreed that developing countries must achieve a rapid and sustained rise in export earnings to cover their growing imports of capital goods and other essentials and to service their foreign borrowings. Failure to attain such an increase, or to receive ever larger foreign aid, would impose a foreign exchange constraint on their growth.

Looked at from this point of view, the figures in Table 1 are not reassuring with respect to the export performance of the less developed countries. Between 1950-65 these countries, exclusive of the major oil producers among them, increased the current value of their exports to the developed countries annually by an average of 4.2 percent. Their exports to each other, again omitting the major oil producers, were only slightly larger in 1965 than in 1950. Over the same period the value of trade among the developed countries rose at an average annual rate of about 9.4 percent, perhaps a percentage point less if figured at constant prices.

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TABLE 1

Exports of Developed and Less Developed Countries, 1950 and 1965

	Value ($ billion, current prices)		Compound Annual Rate of Growth, 1950–65 (per cent)
	1950	1965	
World exports, total	53.5	156.3	7.4
Exports of developed countries, total	35.9	122.5	8.5
To each other	25.0	95.5	9.4
To less developed countries	10.9	27.0	6.2
Exports of less developed countries, total	17.6	33.8	4.5
To developed countries	12.4	26.2	5.2
To each other	5.2	7.6	2.5
Exports of less developed countries, excluding major petroleum producers,[a] total	14.1	23.7	3.6
To developed countries	10.0	18.5	4.2
To each other	4.1	5.2	1.7

Source: Various statistical publications of the United Nations.

Note: All figures exclude exports to and exports of Eastern Europe, the USSR, and Mainland China. Figures may not add to totals shown because of rounding.

[a]Countries excluded are Algeria, Iran, Kuwait, Libya, Netherlands Antilles, Saudi Arabia, Trinidad and Tobago, and Venezuela.

The contrasting performance of exports of developed and less developed countries reflects, in addition to factors on the supply side, the faster growth of world demand for manufactures than for most of the primary products which make up the bulk of the exports of the less developed countries. Reasons for the relative lag in trade in primary products include economies in their use, the continuing development of synthetic substitutes, and the growing complexity and sophistication of final products, all of which tend to reduce the input of raw materials per unit of output.

Some less developed countries exceptionally well endowed with natural resources may be able to meet their growing foreign exchange needs through sales of primary products in crude or processed form. The oil-exporting countries form a small and privileged group in

this regard. Broadly viewed, however, there is little reason to suppose that the influences tending to retard the growth of trade in primary products have run their course. If this is a correct judgment, a solution commensurate with the growth needs of the less developed countries will presumably entail a rapid increase in their exports of manufactures.

The "Overspill" View of Exports

The usual approach to the problem of increasing exports of manufactures by the less developed countries has been to concentrate first on developing the home market, and hope that this will create the conditions needed for an efficient and rising export trade. The International Bank's loans and feasibility studies have mainly focused on the "infrastructure" and the home markets of the less developed countries and have rarely served more directly to develop their exports of manufactures. Our Agency for International Development programs have also been chiefly concerned with strengthening the internal conditions for development, though some of the studies of investment opportunities which it has helped to finance point toward export possibilities. Harry Johnson may go too far in saying that "the notion became firmly established—especially in the United States—that development is an autarkic process." Nevertheless, it does seem fair to observe that the advanced countries have accepted restrictive import policies by the less developed countries as a necessary accompaniment of industrial development, and have so far made little adjustment in their own policies to facilitate the growth of imports of manufactures from the less developed countries.

Limitations of Market Size

However persuasive the argument may seem, it rather begs the question to say, with Rostow, that "The most effective base for the export of manufactures is a large domestic market." According to one estimate, only five of the less developed countries have national incomes larger than Connecticut. Close to 100 of the less developed countries have a population smaller than 15 million, and in two thirds of them it is less than 5 million. On the whole very poor, they are smaller still in size of market compared with most developed countries. More such countries are being born as Malta, Gambia, and Mauritius.

Uncertain Prospects for Regional Integration

In principle, one way of meeting this dilemma is by integration of these splinter economies into larger and more viable regional groupings. There are excellent reasons favoring this course and commending it to outside support.

So far, efforts to combine into larger regional entities have brought little specific result. In some areas, the trend is rather the other way, as indicated by the strains and disruptions experienced in the West Indies, East Africa, and Nigeria. Little progress is evident in the Maghreb, which was supposed to embrace the Arab states of North Africa. The most promising of these regional endeavors, the Central American Common Market, brings together a fairly homogeneous group of countries compared with most others, and even so adds up to only 12 million people with a combined purchasing power less than that of any one of a number of European and American cities.

In some regions political and social frictions may well be the major obstacle to regional integration. Awkward problems may be presented by disparities among countries in the levels and structures of production costs and prices. Barriers of the latter nature are, in turn, largely the result of the exaggerated pursuit of "import substitution" as a means of promoting industrial development. Negotiations for regional integration by various groups of less developed countries are likely to mean hard bargaining for mutual support, and reciprocal sacrifice of high-cost industries. With each participant concerned lest it lose more than it gains, the difficulties of arriving at agreement and successful implementation are apparent.

Considered in this light, it may be significant that the one regional grouping which has been showing signs of progress toward integration—the Central American Common Market—is one whose member states had previously remained relatively open to the outside world and consequently did not differ widely from each other in their cost and price structures. Nor, it must be added, did the members differ much in the relatively low state of their industrial development. There may be, in fact, some risk that the progress now being registered in their manufacturing output and in their trade with each other could prove to be another example of what Prebisch called the "easy phase" of import substitution. The outcome is likely to depend on how successful they are in diversifying and expanding their exports to other countries at the same time as they increase their trade within the area.

This study accepts as its point of departure that if the less developed countries are to earn foreign exchange in amounts commensurate with their needs, they will have to achieve a rapid increase in their exports of manufactures to the developed countries. This is where the world's buying power is concentrated, as long as levels of economic development remain so far apart, and it is also where the less developed countries will have to obtain most of the capital equipment and much of the materials and even some of the food needed by their growing economies and populations.

Labor-Intensive Manufactures

It is important to identify the kinds of manufactures best suited to the growth of exports, and to examine the pattern and prospects of trade in these items. By definition, the less developed countries have little accumulated capital or technical skill. Any comparative advantage which they may hold or attain in manufacturing for export, apart from strongly resource-based industries, is therefore likely to be in industries which are intensive in the use of relatively unskilled labor and sparing in the use of both physical and human capital. Past discussions have centered on the relative intensities of labor and physical capital, but the notion of human capital—recently becoming recognized—should become an equally important element in comparative advantage if a way can be found to reflect it in pertinent measurements.

It may be objected that the approach taken here makes no specific allowance for the possibility that comparative advantages may shift as development proceeds. How much weight should be attached to this possibility is difficult to say, since so little is available by way of empirical evidence bearing on the argument. One factual observation that can be made, however, is that none of the developing countries have so far become competitive in the more capital-intensive lines of manufacturing except those based on the exploitation of particular natural resources.

Another possible objection is that the emphasis may be too much on labor intensity to the neglect of other conditions affecting the ability of less developed countries to sell manufactures in the markets of the more advanced countries. Some industries are more strongly market-oriented than others, and ease of communications between producer and customer may bear importantly on their location. Among consumer goods, market orientation seems likely to be more important in furniture than in plywood or wood containers, for instance, and in high-style fashions than in textile flat goods or work clothes. But even in such cases, the increasing speed of international communications and growing experience in procuring abroad may open up new possibilities of siting production where costs are lowest. This is illustrated by the evolution of the garment industry in Hong Kong toward high-fashion goods, and also by the encouragement given by American companies to the production of electronic and other components in low-wage countries.

Value Added as a Guide to Factor Intensity

Though affected by various market imperfections, value added per employee has significant advantages as a measure of factor intensity in manufacturing for estimating the comparative advantage of less

developed countries. One is that this measure may be taken to reflect the flows of services into the manufacturing process from both human capital and physical capital, and permits their treatment on a common basis. A low value for value added per capita should indicate the relative importance of unskilled labor. Another advantage is that value added per employee is available in considerable industrial detail for the United States and a number of other countries from their censuses of manufactures, unlike the more infrequent and unsatisfactory statistics on stocks of physical capital usually employed as a measure of capital intensity.

To check on the validity of this approach, value added per employee in the United States was broken down into two parts, its wage-and-salary component and the rest. Significant relations are found across industries between the first component and other measures of skill; and also between the non-salary component and stocks of physical capital. It thus appears that value added per employee is a reasonably good guide to the dual concept of capital intensity of different industries, though it is not infallible because other elements do come into it to some degree.

Two criteria may be applied: 1) value added per employee no higher than 10 percent above the average value for all U. S. manufacturing in 1965; and 2) a minimum of $100, 000 exported from developing to developed countries in that year (at the three-digit level of the Standard International Trade Classification). By this approach, the test of the market—reflected in actual exports—is applied to a flexible grouping which excludes the most capital-intensive items while recognizing that U. S. figures for value added per employee in one year are not infallible as a guide to factor intensity. The labor intensive industries meeting both criteria are the following: textiles, clothing, lumber and wood products, furniture, leather and leather products, and the broad group of miscellaneous manufactures, e. g., toys, sports goods, costume jewelry. They would also include important components of other groups, such as: motorcycles and bicycles, cutlery and various other metal products, chinaware and pottery, ceramic tiles, glass containers, paperboard containers, pleasure craft and other small boats, and various kinds of printed matter and printing services.

All of these items are counted as labor-intensive on the basis of the direct factor inputs into manufacturing, ignoring the factor intensity of material inputs on the assumption that the latter are either ubiquitous or readily transportable. A few other items more closely tied to the origin of the material inputs—chiefly certain canned or preserved foods—may also be counted as labor-intensive on the basis that, in these cases, the material inputs themselves as well as the processing of the materials are labor-intensive.

A Common World Pattern

The question arises whether or not the inter-industry pattern of factor intensity found for the United States would be valid for other countries as well, particularly for countries in which skills and physical capital are relatively scarce and unskilled labor abundant. Theoretical arguments, along with some limited empirical evidence, have been offered for supposing that industries would differ significantly in their propensities to substitute labor for capital, and that they would therefore rank differently from country to country in factor intensity. The question is of crucial significance to the factor-proportions theorem, which could not provide reliable guidance to comparative advantage and specialization in international trade if the notion of "factor-intensity reversals" from one country to another were borne out.

Despite problems of comparability, the analysis of value added per employee in the United States and other countries, developed at various levels of industrial aggregation, gives little evidence of factor-intensity reversals. Comparisons were made of three industry groups for 20 countries; of 13 product groups in nine countries; and of over a hundred product sub-groups in the United States, United Kingdom, Japan and India. All these tend to support the strong-factor-intensity hypothesis underlying the factor-proportions theorem and, more specifically, the relevance of the U. S. pattern of factor intensities to other countries at very different levels of economic development and with very different factor-price ratios.

Various statements have asserted that cotton textiles is becoming "highly capital-intensive"—a change virtually completed in the United States and Japan, according to an Organization for Economic Cooperation and Development committee report, but still slowly proceeding in Europe. This view is sometimes invoked as a reason why, pending completion of the transformation and to assist in it, imports of cotton textiles from the less developed countries should continue to be curbed. The analysis given here indicates that, though capital expenditures in this industry in the U. S. increased significantly during the first half of the 1960s, they did so in other industries as well, so that it still ranks as strongly labor-intensive by comparison with other industries according to the criterion of value added per employee. It seems unlikely that the less developed countries are about to lose their comparative advantage in cotton textiles.

Characteristics of the Trade

Analysis of the imports of labor-intensive manufactures by developed from less developed countries brings out the following main features:

TABLE 2:

Imports of Labor-Intensive Manufactures by Developed Countries from Less Developed Countries in 1966 and Rate of Increase since 1953

Importing Country	Value of Imports in 1966 ($ million, f. o. b.)		Percentage Increase per Year since 1953 (compound)	
	Including Imports from Hong Kong	Excluding Imports from Hong Kong	Including Imports from Hong Kong	Excluding Imports from Hong Kong
Developed Countries Total	2,832.1	2,023.4	13.1 a/	10.5 a/
United States	1,236.6	865.3	14.7	11.9
Canada	98.9	67.4	11.3	8.9
United Kingdom	473.0	283.3	7.7	4.0
Other EFTA	152.0	106.9	19.9 b/	17.2 b/
West Germany	352.2	264.4	22.9	20.3
France	138.7	132.2	7.7	7.3
Other EEC	183.1	152.3	16.2	15.0
Japan	80.9	72.1	26.3 c/	25.6 c/
Australia	89.0	63.3	5.4 d/	2.8 d/
New Zealand	27.7	16.1	n. a.	n. a.

Source: "Tariff Preferences for Less Developed Countries," see pp. 37-42.

Note: Imports of countries reporting on a c.i.f. basis have been adjusted to an approximate f. o. b. basis by a uniform reduction of 10 percent.

a/ Excluding Australia, Japan, New Zealand, and Switzerland.
b/ Excluding Switzerland.
c/ Since 1955.
d/ Since 1957.

1. The trade is relatively small, accounting in 1965 for less than 10 percent of total imports by developed from less developed countries. The share of imports from less developed countries in total imports of labor-intensive manufactures by developed countries was also small—about $13\frac{1}{2}$ percent—and scarcely one percent of total consumption of these products in these countries. In short, the less developed countries have only begun to scratch the surface of these developed country markets.

2. The trade is highly concentrated by origin, destination, and product. Hong Kong alone supplied 28 percent of the 1965 total, and altogether the less developed countries of the Far East supplied two thirds. The United States took almost 42 percent of these imports and, together with the United Kingdom and West Germany, they accounted for 72 percent. Textiles and clothing, exclusive of products of jute and other coarse fibers, made up almost one third of the total, or 45 percent if the coarse-fiber items are included.

3. The trade has grown very rapidly in recent years. In 1965 the total was 4.3 times the 1953 level, an increase averaging about 13 percent per annum, unadjusted for price increases, or perhaps one or two percentage points less if so adjusted. This is much faster than seems to have been generally expected only a few years ago. Recently, the increase has been much faster in miscellaneous light consumer manufactures than in the other three groups (textiles, food products, and processed materials).

An important condition for the continued rapid growth in this trade is that the structure of wages in less developed countries not be such as to nullify their comparative advantage in labor-intensive products. This qualification seems to apply to a number of the less developed countries and may explain why some of the more advanced among them have not done well as exporters of labor-intensive manufactures while still unable to compete in other manufactures. Otherwise, the ability of the less developed countries to export labor-intensive manufactures should continue to strengthen as they gain experience and as incomes rise in the developed countries. If the restrictions on such imports by developed countries are not increased, and even if some limited increase should occur, there is a real prospect for growth.

[Condensed from Imports of Manufactures from Less Developed Countries. New York: National Bureau of Economic Research, 1968, Chapter 1, pp. 1-17.]

The Role of Export Expansion in Hong Kong's Economic Growth

Shou-eng Koo

[Hong Kong's rapid postwar economic growth has been generated mostly by its export industries. Industrialization was possible, and also necessary, because of heavy immigration of labor and capital from the mainland.]

The experience of Hong Kong after the Second World War provides an interesting case study of export-oriented industrialization. In a short span of time, Hong Kong has been transformed from an entrepot to a basically industrial economy with a high rate of economic growth. A host of questions needs to be examined in the evaluation of the Hong Kong experience: What are the principal factors which have brought about the structural change in the foreign trade of Hong Kong? What is the role of expansion of manufactured exports in promoting the growth of the economy as a whole? Has Hong Kong embarked on a sustained economic growth or not?

Structural Change in Foreign Trade

Since 1843, when the colony was founded by Great Britain as a free port for traders, Hong Kong has consistently maintained a liberal policy towards private trade. With few exceptions, commodities and capital can flow in and out of Hong Kong with little official encumbrance.

Before the Second World War, Hong Kong was the focus of entrepot trade and handled most of the imports and exports of the South China coast. The war

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caused only a temporary disruption; after 1945, reconstruction work in the port of Hong Kong was rapidly carried out, and entrepot trade activities resumed. The political change in mainland China in 1949, however, dealt a serious blow to Hong Kong's entrepot trade. China's severe curtailment of popular consumption in the interest of rapid industrialization, its reliance on the Soviet Bloc countries for capital goods, and the direct handling of imports and exports by state enterprises, all led to great restrictions in its trade with Hong Kong. But because of the Korean War, Hong Kong's exports increased temporarily, reaching HK $4, 433 million [ca. HK $6 = $1] in 1951, and imports also registered a record HK $4, 870 million. By 1954, however, exports dropped sharply to HK $2, 417 million and imports to HK $3, 435 million.

Thereafter, Hong Kong's foreign trade rose almost continuously. In 1966, exports and imports totaled HK $7, 563 million and HK $10, 097 million, respectively. These increases reflected mainly the development of domestic industries, with the consequent expansion of manufactured exports and the rising demand for industrial raw materials and capital goods. The entrepot trade never regained its previous significance. During 1954-66, the share of re-exports in the total exports of Hong Kong declined from 64 to 24 percent, while that of domestic exports increased from 36 to 76 percent.

There has been an important shift in the direction of Hong Kong's export trade in the post-war period. The United States, followed by the British Commonwealth, has recently replaced mainland China as the most important customer for Hong Kong's exports. In 1966 the U.S. absorbed 36 percent of these exports, and the Commonwealth countries took about 33 percent, of which 17 percent went to the United Kingdom. Exports to Western Europe and Japan have also grown rapidly. Hong Kong has relied more on the advanced countries to absorb its products than on the underdeveloped ones.

Factors Contributing to Industrial Development

The expansion of Hong Kong's exports of domestic products in the last decade has been brought about mainly by rapid industrial development. Led by textiles and clothing, Hong Kong's industries have advanced on a broad, diversified front. There are no official estimates of the industrial output, but private sources indicate that the output of manufacturing industries increased in 1959-64 from HK $2, 400 million to HK $5, 400 million, about 80 percent of which is exported. It represented about half of the national income in 1965.

Hong Kong's rapid industrial development can be explained by a number of factors. First is the rapid population growth in the post-war period. As a result of the influx of immigrants from mainland

TABLE 1: Domestic Exports: Principal Commodities and Markets 1959, 1966

(HK$ million)

PRINCIPAL COMMODITIES				PRINCIPAL MARKETS			
Item	1959	1966	Percentage change	Country	1959	1966	Percentage change
Total	2,282	5,730	151.1	Total	2,282	5,730	151.1
Clothing	793	2,035	156.6	United States	564	2,036	261.0
Textiles	414	921	122.5	United Kingdom	439	987	124.8
Toys and Games	90	385*	327.8	West Germany	72	420	483.3
Artificial Flowers, Foliage and Fruits	61	258	323.0	Malaya and Singapore	213	224	5.2
Electrical Products	35	476	1260.0	Canada	161	175	8.7
Footwear	109	184	68.8	Japan	93	162	74.2
Manufacture of Metals	120	176	46.7	Australia	60	128	113.3

*Plastic toys and dolls only

Sources: Hong Kong Government, Annual Reports; Hong Kong Department of Commerce and Industry, Hong Kong Directory of Commerce, Industry, Finance, annual issues.

China, as well as through natural increases, Hong Kong's population reached 3,785,300 at the end of 1966 compared to some 1,500,000 in 1946, an annual increase of 4.4 percent over the two decades. How to feed, clothe and shelter the teeming population has been a formidable problem. With a total area of 398 square miles, predominantly hilly in terrain, Hong Kong could not expect to increase agricultural cultivation to any significant extent. Mining resources were also limited. Consequently, the only avenue open to Hong Kong was to establish a new economic frontier, i.e., industrialization.

Meanwhile, as a result of recurrent immigration waves from China, Hong Kong has the advantage of a hard-working and cheap labor force. They are all ready to work hard for survival. Wages are held down by the availability of an increasing number of women and teenage workers, and by the weakness of labor unions. Among the immigrants there have been many technicians as well as managerial and entrepreneurial personnel, mostly from Shanghai, who certainly contributed to the expansion of industrial undertakings.

Second, Hong King has benefited from a large capital inflow. After the Second World War, many Chinese returned to Hong Kong with capital. After the 1949 upheaval on the mainland, businessmen, industrialists and wealthy people took refuge in Hong Kong, bringing large amounts of funds as well as machines and tools. Capital has also come from the transfer of funds by overseas Chinese in Southeast Asia. First, the war in French Indo-China provoked the transfer of considerable Chinese capital to Hong Kong for safekeeping and investment. Later, capital came from other Southeast Asian countries, such as the Philippines and Indonesia, where great restrictions were enforced on the commercial and industrial activities of

Chinese nationals. The political tension in Malaya and Singapore has also stimulated the flow of capital into Hong Kong. The total inflow of capital in the postwar period has been estimated at about HK $7,000-8,000 million. While some has gone into speculation in stocks, commodities, and real estate, a considerable sum has been invested in industry.

The third reason for the rapid industrialization is that Hong Kong, thanks to its longstanding entrepot trade, possesses relatively ample infrastructure and, unlike many underdeveloped countries, need not devote large amounts of scarce capital to its construction. There is a deep-water natural harbor and all the ancillary services for handling and storing products. Roads are adequate; the airport was recently renovated; a railroad links the colony to Canton. Although the water supply has sometimes been a problem, electricity and gas are adequately supplied.

Fourth, Hong Kong has seen relatively stable prices in the postwar years. This can be explained partly by conditions in the balance of international payments, and partly by the monetary and fiscal measures of the government. Hong Kong has always experienced a deficit in commodity trade, but invisible earnings derived from entrepot trade, tourist business, and capital inflow have comfortably offset any deficit originating in trade accounts. The supply of money has remained relatively stable. The Government of Hong Kong has in recent years built up substantial reserves from annual budgetary surpluses. Public works projects such as the construction of reservoirs, housing accommodations for the resettlement of refugees, and land reclamation, have been financed largely by such surpluses, without necessitating issues of government notes or raising the public debt. This has helped curb any inflationary forces which might have accompanied industrial development.

Fifth, the postwar period has witnessed a continuously expanding world economy and a general world trend toward trade liberalization and economic expansion. In addition, Hong Kong may enjoy the advantage of being a small country: although its exports to a particular country may constitute an important share of its total output, its proportion of that country's imports can be very small.

Finally, the laissez-faire policy taken by the official authorities has contributed to industrial development. The Government has consistently avoided interfering with private economic activities; not only is there a free port, but controls on the movement of capital and on business and industrial activities have been kept to a minimum. In addition, Hong Kong has enjoyed a stable government, providing security to industries.

Sustained Economic Growth?

As a result of industrial development and the consequent expansion of manufactured exports, Hong Kong's economy has grown rapidly in postwar years. Not only have export industries absorbed a large number of immigrants and local workers, relieving the heavy population pressure, but they have also stimulated the activities of other sectors of the economy. The import trade, the construction industry, primary production, and services have all expanded as well. Private estimates indicate that the national income advanced from HK $1,790 million in 1948 to HK $11,000 million in 1965—a total increase of about 5.1 times, at an annual rate of 11.1 percent. On a per capita basis, the national income during the same period rose from HK $994 to HK $2,955, an annual increase of 6.6 percent. Particularly rapid growth has occurred since 1959. Within six years, 1959-65, the national income was more than doubled.

It does not necessarily follow, however, that the economy has embarked on a take-off stage into sustained growth. Some observers maintain that the economy of Hong Kong has developed largely as a result of some fortuitous factors prevailing after the Second World War. They conclude that the capital and skill inflow cannot be expected to continue, so that Hong Kong's economy may become stagnant or decline in the future.

It should be noted, however, that only a small porportion of the immigrants were skilled labor, that the inflow of entrepreneurs practically stopped after 1951, while rapid industrial development and economic growth occurred in the last decade. With many years' experience behind them, Hong Kong's industries have already built up a large army of skilled workers and of managerial and entrepreneurial personnel. There will be no need for the continuous inflow of such personnel in the future to perpetuate economic growth.

As for the inflow of foreign capital, the inflow from Southeast Asian countries may dry up. But with the rising profitability of its industries, Hong Kong has in recent years been able to attract capital from new sources, such as the United States, Japan, and Western Europe. Besides, the inflow of capital from external sources may not play as important a role as in the past. A large number of enterprises are still family-owned, and they retain much of the profit realized from business operations for further development. Individual savings have also increased greatly in recent years as a result of rising income in times of prosperity.

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The Australian System of Tariff Preferences for Developing Countries

Department of Trade and Industry, Australia

[Australia is the only country which has so far provided systematic tariff reductions for the developing countries as a group, applied to specified products up to specified quantities.]

At the United Nations Conference on Trade and Development in 1964, the developing countries urged the need for tariff preferences in their favor. In the absence of international action on this question, Mr. McEwen, Minister for Trade and Industry, announced in May, 1965, Australia's intention to proceed on its own with a system of tariff preferences in favor of selected manufactures and semi-manufactures from developing countries. These preferences are "non-reciprocal" in that Australia seeks nothing in return.

Features of the Australian System

Before the Australian proposal for tariff preferences for the developing countries could be brought into operation, it was necessary to obtain from the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) a waiver of the so-called "no new preference" provision of the GATT. This was obtained in March, 1966.

Eligible countries. Australia asked the GATT for guidance on the countries which might receive the preferences. An indicative list of countries was submitted for discussion, comprising the UNCTAD caucus of developing countries, with the addition of Papua and New Guinea and former British Territories which already received some preferences under the Australian tariff. A Working Party was set up by GATT to consider Australia's waiver application. During the course of its deliberations, a number of countries

applied for inclusion. Israel, Cuba, Greece, Spain, Turkey, the Republic of China (Taiwan), and dependent territories of the Netherlands, the United Kingdom and Portugal were subsequently added. Australia has not taken the initiative in any of these cases. Currently, there are 135 countries regarded as developing countries for the purposes of the Australian system.

Exclusion of competitive countries from preferences. Australia has the right under the GATT waiver to exclude from the preferences on any product any developing country which is already competitive in Australia's imports of that product. Only Hong Kong and Taiwan have been excluded, and then only for a very few products.

Eligible products. The tariff preferences extend to two broad types of exports of interest to developing countries: 1) Specified manufactures and semi-manufactures: These products are admitted at preferential rates of duty up to the level of annual quotas. The quota system is designed as a safeguard for Australian domestic industry, and to avoid substantial injury to the established trade of third countries in the products concerned. 2) Specified handicraft products: Certain traditional, handmade products of cottage industries are admitted duty-free without quota limitation. In general, the selected handicraft products do not compete against either Australian production or imports from the industrialized countries.

All of the products to which preferences are applied have been nominated by developing countries, or by importers in Australia, as being of present or potential interest; any interested party may make such requests. The original preferences came into effect on 12 April, 1966, for handicraft products and 1 July, 1966, for quota items. Preferential rates for further quota products became effective from 1 July, 1967, and 2 January, 1968. New handicraft products were also added on each occasion. The products eligible for tariff preferences as of January, 1968, comprise 91 quota groups of manufactures and semi-manufactures, with a total quota value of $A 20.5 million per annum [$A .90 = $1], as compared to $13.3 million in 1966. A further increase to $A 33.5 million became effective on 24 February, 1969, along with additional handicraft items. The system is under continuous review, and more additions are probable.

If an Australian industry considers that the entry of particular products from developing countries at preferential rates is adversely affecting local manufacture, the industry is free to seek a review of the preferential rates under the normal procedures of the Tariff Board. To date, there have been no references to the Board under this provision.

Allocation of quotas. If the total value of applications received for a particular quota group is less than the available quota, all applications from importers are granted in full. Where the total value of applications exceeds the quota, account is taken of the number of countries for which allocations are sought, the number of importers requesting allocations, and the value of individual applications. This ensures that every eligible applicant (and hence every country nominated by applicants) receives an equitable share of the quota available.

Effect on Australian Imports

As can be seen from the table below, imports from the developing countries of commodities included in the quota section of the system were about 45 percent higher in 1966-67 than in 1965-66 and rose sharply in 1967-68. The monthly rate of importation of handicraft items under the system was increasing during 1966-67, and doubled its value in 1967-68.

Imports of Preferred Items
(in thousands of Australian dollars)

	1965-66	1966-67	1967-68
Quota Items:			
At preferential rates	Nil	1,657	4,982
At normal rates	2,610	2,115	15,481
TOTAL	2,610	3,772	20,463
Handicraft Products:	Not separately recorded	612	1,283

Although the Australian system has only been operating since mid-1966, it is now firmly established and is functioning successfully. There has been a marked increase in the value of imports of those products included in the system, and the value of trade should continue to rise as exporters in developing countries and Australian importers become more aware of the potential of the system.

[Excerpted from The Australian System of Tariff Preferences for Developing Countries, a report of the Department of Trade and Industry, Commonwealth of Australia, Canberra, January, 1968, pp. 1-5; with official updating.]

Tariff Preferences for Less Developed Countries

Hal B. Lary

[The possibility of contribution to development of the poorer countries by means of tariff preferences granted to their products in the markets of developed countries was given wide attention at the first United Nations Conference on Trade and Development (UNCTAD I) in 1964. The following is a progress report on the subject.]

My purpose here is to see how close the major trading nations have come to agreement on a system of tariff preferences for the less developed countries (LDCs). The more positive attitude expressed by the United States at Punta del Este in April, 1967, was followed by intensive discussions in a special group at the Organization for Economic Cooperation and Development (OECD) composed of the United States, the United Kingdom, France, and Germany. The findings of that group were accepted by the OECD Council of Ministers on December 1, 1967, as guidelines for the discussions at UNCTAD II in February, 1968.

Meanwhile, the LDCs were also able to agree on a summary statement of what they were seeking. Their agreement is embodied in the "Charter of Algiers," adopted October 1967 by 77 countries. The number of adherents has now grown to 88.

Though it is interesting to compare the two documents, that produced by the OECD is by far the more important. It is the developed countries that are being asked to make special concessions. They are even being spoken of as "donor" countries. No

Another article by Mr. Lary appears on pp. 20-28.

reciprocal concessions or commitments are being asked of or offered by the LDCs. How near, then, have we come to a meeting of minds?

Choice of Beneficiaries

The awkward question of determining beneficiaries is passed over in silence in the Charter of Algiers. Presumably all countries adhering to the Charter are deemed eligible. In the OECD guidelines the simple principle of self-election is more explicitly stated, thus cutting the Gordian knot: any country claiming development status can be included. But this does not mean a common list. Each of the "donor" countries would be allowed the right to exclude from its preferences particular developing countries, provided only that this action is not based on competitive grounds. This provision seems to be intended to permit exclusion of politically undesirable candidates—Cuba in the case of the United States, possibly Israel by some other countries. Though there is some risk of abuse of this provision, it may not be very great. That remains to be seen.

Product Coverage

If the purpose were to promote the optimal allocation of production in the less developed countries, each developed country would bring its tariffs down to a uniform level on all imports from the LDCs. And that level would be zero, if the further purpose were to maximize the foreign exchange receipts of the LDCs. This is, in fact, the ambitious goal sought in the Charter of Algiers, at least for all manufactures and semi-manufactures. As contemplated in the OECD guidelines, however, the product coverage would be a good deal less than complete, and the preferential duties may vary from one product to another and from one "donor" country to another. The coverage in terms of products is defined as Chapters 25 to 99 of the Brussels Tariff Nomenclature. This includes all industrial items ranging from raw materials to finished manufactures but excludes all foods and food products. The guidelines thus bend to conform to the European Economic Community (EEC) common agricultural policy. The unhappy effect is to exclude from preferential treatment a number of food products in which some of the LDCs have interesting potentials, notably seafood and preserved fruit and vegetables. Some food items may nevertheless be included on a case-by-case basis.

The effective product coverage foreseen by the OECD guidelines is further restricted by provision for certain exclusions, and, though nothing of this is said in the agreement, the coverage may also be limited by non-tariff barriers. The guidelines note that the developed countries granting preferences will probably want to exclude

from the outset a limited number of "sensitive items" in which the developing countries are already competitive. Textiles may be taken as a major (though regrettable) example. The guidelines note the evident danger that the list of such exclusions could become far too long, if each country's exclusions are adopted by the others. This risk would seem to be considerable. Some countries, notably France and Japan, now impose very restrictive controls (quotas, exclusions) on a great many manufactured items of export interest to the LDCs. Unless the countries imposing these controls are prepared to lift them under a preferential tariff arrangement, the items concerned would surely have to appear on their exclusions list. The latter may be the more likely outcome. And if other countries were to follow suit, the whole scheme would be shot through and through with exceptions.

Tariff Quotas and Escape Clauses

The matter of so-called "safeguards" provides further possibilities for limiting the effective coverage of the preferential system as well as room for continuing controversy before agreement on the system is reached. It may be that a deceptive air of unity has been achieved in the OECD guidelines by bringing two rather different principles together under this common heading. One, operating *ex ante*, is the tariff-quota approach favored by France and some other countries under which the amounts of imports eligible for preferential treatment would be specified in advance. Imports above these amounts from the LDCs would then pay the regular or most-favored-nation (MFN) duties. The other approach, operating *ex post*, is the so-called escape-clause route, favored by the United States among others, whereby preferential tariff margins might be withdrawn or other steps taken to limit imports after a finding of injury to domestic industry.

I shall not try to sum up the long and sometimes acrimonious arguments over the respective merits of these two approaches, which in any event could scarcely be judged in the abstract. Let me simply offer it as my personal opinion that in a growing world economy the escape-clause route is likely to prove much less restrictive than the tariff-quota approach, unless those setting the tariff quotas are more imaginative and generous than they have tended to be in the past. This also seems to be the view of the LDCs, since the Charter of Algiers makes no provision for tariff quotas. It does allow for escape-clause action although, contrary to the unilateral exercise envisaged by the United States, it insists that such action be subject to agreed criteria and international control.

The Problem of Existing Preferences

One of the thorniest questions concerns the status of the preferences already held by some of the LDCs, notably by the Associated African States in the EEC and by the Commonwealth countries in the British market. The margins of preference they enjoy over other LDCs would necessarily be reduced under a new, more universal scheme. This tends to be resisted by the present beneficiaries, despite their protestations of solidarity with other LDCs in the Charter of Algiers. But the countries not participating in these existing schemes, and the United States in particular, want to see the present discrimination not merely reduced but eventually eliminated altogether. This view is resisted not only by the African States but also be France with its concept of Euro-African unity.

The obverse of the problem just discussed is the so-called "reverse preferences" giving France and other Common Market members privileged access to African markets as the counterpart to the preferences received by the African Associates in the Common Market. The position of the United States is firm on this problem: it has made clear that it will not extend preferences, at least not for long, to countries that discriminate against it, and therefore that the reverse preferences held by the Common Market members in Africa must disappear, or be phased out, as a condition for U. S. participation in any generalized preferential scheme. It seems equally clear that France is firmly set against the loss of these preferences.

Time and Method of Termination

One feature generally agreed is that preferences for the LDCs should be temporary. This is a logical application of the infant-industry argument underlying all proposals for preferences. Not surprisingly, the Charter of Algiers aims at a period of twenty years, whereas the OECD guidelines envisage only ten. The key question concerns the manner of disappearance. To eliminate preferences by raising the duties against the developing countries back to the levels charged on imports from other sources could prove ungracious and perhaps politically impossible. An approach suggested by the United States would be rather to lower the MFN rates down to the preferential rates. The cuts to be made to the LDCs on a preferential basis would thus be an advance dose of concessions by the developed countries to each other at a later stage. This sounds neat and logical. But it may be optimistic to suppose that the developed countries would commit themselves now to duty cuts taking effect long in the future. And the United States has undermined its own proposal by refusing to apply the Kennedy Round cuts to the LDCs in advance of the regular schedule.

The Outlook for Preferences

The immediate prospect is for slow motion, at best, in the direction of preferential tariffs. The Australian initiative in granting a unilateral preference to LDCs [see pp. 34-36] seems not to have produced imitators, and the grand confrontation at UNCTAD II was disappointing to its LDC sponsors. The general debate at UNCTAD II may have marked a new trend toward increasing self-criticism; if so, this would be a hopeful sign, but the stubborn obstacles on particular points noted above remain to be dealt with. Further talks will be required, particularly among the "donor" countries, to arrive at an operational scheme. And to put any scheme into effect with the (crucial) participation of the United States, the Administration will have to obtain either a broad new grant of negotiating authority from Congress or Congressional approval of the scheme itself.

Among the tough problems remaining, perhaps the most difficult politically concerns the fate of existing preferences, especially the "reverse preferences" favoring the Common Market in Africa, to which the United States has expressed adamant opposition. But probably the question of greatest consequence to the LDCs concerns the product coverage of the scheme and the extent of the exclusions. Insofar as preferences are denied to products in which the LDCs are already competitive, the new stimulus will be confined to products in which these countries have a potential advantage but little actual exports. Over the longer run the contribution to export expansion could be substantial, but these gains will be realized only very gradually. Prospective benefits will be greatly enhanced if countries granting preferences extend these to products which the LDCs can now supply, and resist the temptation to add each other's exclusions to their own.

Another worrisome point is the failure of the OECD guidelines to make any reference to quantitative import restrictions and other non-tariff barriers. Will they be passed over in the new preferential arrangements without any new commitments—or reaffirmation of past commitments—to eliminate these restrictions?

There is some cause for concern lest the preferential scheme envisaged at the OECD facilitate or encourage the imposition of new controls over imports from the LDCs. In principle, the so-called tariff quotas that would be applied by the EEC and some other countries would limit only the amounts to be imported at preferential rates without prejudice to the importation of additional amounts at the higher regular tariff rates. What is the risk that, in the countries applying them, these quotas will nevertheless be regarded as fair and reasonable and become in fact the maximum to be imported from the LDCs at any tariff level? That is, will so-called "tariff quotas" become overall quotas, in fact if not in name? And what is

the risk that such notions will be picked up and successfully promoted by protectionist circles in the developed countries which have not hitherto made extensive use of the tariff quota device?

In conclusion, the possibility of reaching agreement on a new and more extensive preferential system may depend on U.S. willingness to settle for something much less uniform and general than we would have liked. If so, we shall have to focus our attention less on uniformity of methods and more on the significance of particular results in terms of new trade openings for the LDCs. It is relevant to note in this regard that the OECD guidelines embody the broad, if vague, aim of "equitable distribution among developed countries of increased import opportunities to their markets." This principle could become important in the negotiation, and perhaps still more in the review and administration, of new preferential arrangements.

If the possibilities for diversifying and expanding LDC exports, particularly of manufactures, were heavily dependent on obtaining preferential access to the markets of the richer countries, the prospect for early and effective action would not seem very favorable. But if we look at what has actually been happening in the trade, the outlook is a good deal more promising. I focus on labor-intensive manufactures since I think it is here that countries poor in both physical capital and human capital have the best chance of asserting a comparative advantage [see pp. 20-28]. This trade has been growing very rapidly and is becoming more widely spread among both exporting and importing countries and more varied in product composition. The average annual rate of increase from 1953 to 1966 was 13 percent. At that rate it doubles in five years and quadruples in ten. In referring to these generally favorable prospects, as they seem to me, I do not mean to suggest that a generalized system of tariff preferences would be unhelpful. But there is a risk of undue pessimism if the scheme fails to be achieved, and perhaps a risk also of expecting too much from it if such a scheme is achieved.

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URBANIZATION

TWO FACETS OF URBANIZATION IN BRAZIL;
A HILLSIDE "FAVELA" SETTLEMENT OF
SQUATTERS, AND DOWNTOWN SAO PAULO.
(PHOTOS: U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
AND THE BRAZIL INFORMATION BUREAU.)

Urbanization Trends

Table 1 shows the estimated growth of urban population in the major regions of the world from 1920 to 1960, and projected figures for 1980. The table also shows for each region, and for the same years, the percentages of urban to total population. Urban population means inhabitants of towns and cities of 20,000 or more.

Table 1: Urban Population (in localities of 20,000 or more inhabitants) in Major Areas of the World, 1920-60, Projected 1980

(Rough estimates)

Major Area	1920	1930	1940	1950	1960	Projected 1980
Numbers of Urban Population, in millions						
World Total	253	328	427	532	753	1,360
Northern America	44	58	64	83	113	161
Oceania	3	4	5	6	8	11
Europe (ex USSR)	104	123	140	148	174	235
Soviet Union	16	24	47	50	78	128
Latin America	13	18	25	41	68	152
East Asia	39	57	82	106	161	296
South Asia	27	35	51	77	116	287
Africa	7	10	14	22	36	89
Urban Population as a Percentage of Total Population						
World Total	14	16	19	21	25	32
Northern America	38	43	45	50	57	61
Oceania	34	35	38	42	50	48
Europe (ex USSR)	32	35	37	38	41	50
Soviet Union	10	13	24	28	36	46
Latin America	14	17	19	25	32	41
East Asia	7	10	13	15	20	29
South Asia	6	7	8	11	14	21
Africa	5	6	7	10	13	20

Source: "Urbanization: Development Policies and Planning," International Social Development Review, No. 1. New York: United Nations, 1968, pp. 11-12, & 18.

Rapid increases in both the total numbers and the percentage values for urban population are found in every part of the world. In general, the urbanization process is furthest advanced in the more developed, industrial regions; but the rates of increase in urbanization are faster in the developing countries. A partial exception to this is found in a comparison of figures for Latin America and the USSR: in the 1930s, the latter showed a more rapid increase in urbanization; but in recent years, and for the projected future, the process moves faster in Latin America.

In view of the current rapid growth in towns and cities of the developing countries, it is of interest to compare some of their mid-twentieth century figures for both urbanization and industrialization with similar figures for European countries in the nineteenth century when they were at an earlier stage of development. Industrialization is measured by the percentage of the workforce employed in manufacturing. Table 2 shows that urbanization tended to be at

lower levels in Europe at a time when industrialization was further advanced as compared to conditions found in the developing countries today. This kind of a difference indicates that urban employment is more of a problem for the developing countries at present than it was in 19th-century Europe.

Table 2: Labor Force in Manufacturing and Level of Urbanization (proportion in localities of 20,000 or more inhabitants)
(Percentages)

Country	Year	Urbanization	Industrialization
Developing Countries			
Algeria	1954	18.2	5.6
Morocco (southern zone)	1951	26.9	6.2
Tunisia	1956	17.5	6.8
United Arab Republic	1960	16.0	9.6
Costa Rica	1950	17.5	10.1
El Salvador	1950	12.9	9.1
Panama	1960	27.9	6.9
Brazil	1960	28.1	9.5
Chile	1952	42.5	16.9
Colombia	1951	45.8	9.9
Ecuador	1950	17.8	14.2
Venezuela	1961	47.2	8.8
Ceylon	1953	11.2	9.4
India	1951	11.9	10.7
Federation of Malaya	1957	22.7	6.9
Republic of Korea	1957	29.2	6.7
Pakistan	1961	11.9	6.2
Turkey	1955	18.2	8.7

Country	Year	Urbanization	Industrialization
Europe (19th Century)			
Austria	1890	12.0	30
France	1856	10.7	29
Hungary	1900	10.6	17
Ireland	1851	8.7	34
Norway	1890	13.8	22
Portugal	1890	8.0	19
Sweden	1890	10.8	22
Switzerland	1888	13.2	45

Source: "Urbanization: Development Policies and Planning," International Social Development Review, No. 1. New York: United Nations, 1968, p. 84.

Uncontrolled Urban Settlement: Problems and Policies

John C. Turner

[A variety of schemes have been tried in different developing countries to replace or improve urban squatter settlements. The most promising are those which have exploited the initiative of the squatters, and where the government has provided the basic components —land and utilities—at very low cost.]

An increasing proportion of the urban settlement in developing countries is occurring "spontaneously" in totally unplanned ways. The marginal urban growth of today—the inner rings of tomorrow's cities—is largely caused by squatters and illegal developers in the rapidly urbanizing countries. Over one third of the population of Mexico City, 1.5 million people, live in the colonias proletarias—known originally as barrios paracaidistas or "parachutists' neighborhoods;" nearly half of Ankara's population of 1.5 million in gecekondu districts—the squatter settlements whose name describes a house built overnight; the area of the villes extracoutumiers of Leopoldville is greater than that of the city itself. [See also Development Digest, July 1968, pp. 39-68.]

Functions of Uncontrolled Settlement

A review of the data suggests that uncontrolled urban settlement performs functions essential to the process of modernization. It provides "bridgeheads" for the economically unestablished, and "consolidation

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settlements" for those with a status to defend. Uncontrolled urban settlement is the manifestation of traditional urban processes, but under historically unprecedented conditions of rapid build-up in the city populations.

Below: Self-help improvement, "consolidation" area, Lima. (Photo: Peace Corps)

Above: "Bridgehead" area, Lima, Peru. (Photo: Author)

Provisional and generally deteriorating settlements provide the very poor with strategically located "bridgeheads" from which they stand their best chance of getting jobs and of solving their immediate and overwhelming problem—survival. All the "bridgeheader" and his dependents need is a place they can pay for in which to sleep and leave their few belongings while looking for and picking up the odd jobs on which their immediate survival and ultimate progress depend. It is essential for the extremely poor, aspiring to become fully participating citizens with secure living standards, to concentrate whatever energies they may have on getting and holding jobs.

At the other end of this process of urban accommodation is the problem of securing or consolidating the urban status achieved. The permanently established, self-improving settlements suit the more regularly employed. These settlers, new but often somewhat insecure citizens, are less troubled by hunger and the problems of physical survival than they are by the danger of losing their jobs or their savings and of sliding back down into the depths of poverty. Settlements on securely held land, and permanent building construction, are the means by which these "consolidators" invest their savings and protect themselves from some of the consequences of unemployment—eviction and homelessness.

"Consolidation" settlements established by the direct action of low-income groups are apparently exceptional in countries with very

low per capita incomes, but occur commonly in countries with somewhat higher per capita incomes which are urbanizing rapidly. For example, on hillsides occurring near major centers of employment—as in Lima, Algiers, Rio de Janeiro, Ankara, and Manila, a fortunate "bridgeheader" might get hold of a piece of land as suitable for a permanent dwelling as for a provisional shack. Over time these settlements develop from predominantly "bridgehead" to "consolidation" settlements.

Causes of Uncontrolled Settlement

Uncontrolled urban settlement is a result of the difference between the popular demand for housing and that supplied by "institutional society." The values and priorities of the popular sectors are different from those which they are required to adopt by such institutions as zoning laws, financing organizations, etc. Policy objectives and the institutional framework for their fulfillment are too often geared to one sector of society, a wealthy minority, which makes them economically and culturally unacceptable to the remainder—i.e., four fifths of the urban populations. Guided often by erroneous notions of slum clearance and the prohibition of any forms of building which are not considered to be "modern" enough for the city, official policies have frequently contributed directly to the worsening of housing conditions and to the precipitation of squatting and clandestine development as the only alternative for the masses. Uncontrolled settlement is not normally the product of willful lawlessness, but is the solution for large sectors of the urban populations whose housing needs are inadequately served.

A Review of Government Action

Until quite recently, uncontrolled settlement was rarely regarded as anything but a temporary problem involving marginal sectors of the population and limited to the interstices and margins of the cities. Until very recently, the only deliberate policies formulated to solve squatting and slum development have been aimed at the control of population movements. Comprehensive policies to deal with causes as well as symptoms of the problem are rarely formulated.

The most common "policy" in countries where rapid urbanization is taking place and where the surplus peasant population is migrating is, in effect, laissez-faire. The serious efforts to deal with squatting and slums in general have taken a negative form; in extreme cases, governments attempt to drive settlers away by tearing down their shacks. But with the increasing attention given to "housing of social interest," eradication has been more commonly coupled with attempts to relocate. A few governments in Latin America, notably Peru, are attempting settlement improvement procedures, sometimes providing building lots.

Eradication, resettlement and improvement are all procedures designed to deal with existing settlements—with problems created by past action. But if provision is not made for the accommodation of current and future immigrants and for the natural increase of the poor of the city, as well as for the settlement of the growing number of the somewhat less poor, the effects of any resettlement or improvement program will soon be drowned by the continually rising demand. Plans for decentralization, rural development or colonization, or even birth control, are most unlikely to have any appreciable effect in the immediate future, and thus having little bearing on current housing and urban development problems.

There are four basic and complementary spheres of practical action in the housing field:

1. The relocation of settlements that damage the city's growth to a greater extent than would be the cost of removing them;

2. The improvement of existing and improvable settlements that will otherwise deteriorate and create problems;

3. The accommodation of those who have no interest in or resources for building for themselves and who cannot afford the alternatives currently offered; and, most important,

4. The settlement of those who do have the interest and resources sufficient for building and who will build whatever and however they can, anyway, if they are not provided with better alternatives.

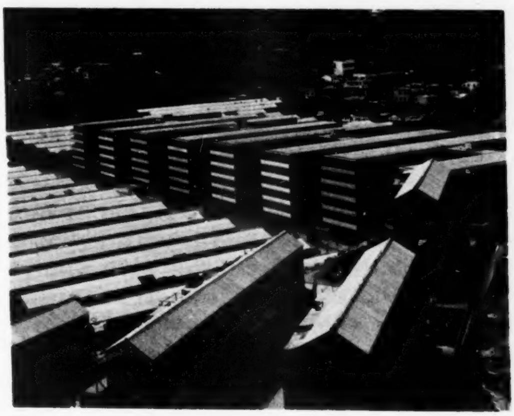
Eradication and Relocation Projects

There is immense variety among the types of projects that governments have adopted and carried out for relocation purposes. Many different financing and tenancy conditions have been employed, siting varies from central urban areas to those beyond the periphery of the city, and the extent of settler participation ranges from nil to almost total responsibility.

Caracas and Hong Kong. The excellent annual reports issued by the Government of Hong Kong, and a detailed evaluation study of the superbloques of Caracas, yield valuable information on two physically similar resettlement solutions that are otherwise quite different. Both are within the urban areas near quarters where employment is obtainable and sited on or near the squatter settlements they have replaced. Thirty-eight superbloques—15-story apartment units—were built in Caracas between 1954 and 1958 and housed 160, 000 in 1959. In Hong Kong the 7-story "H" blocks accommodated 575, 000 people between 1954 and 1964. But there the similarities end. The

Hong Kong housing program has been well administered and is financially self-supporting, while the superbloque program is notorious for its administrative failures. It has proved to be a major drain on the State's resources—the monthly maintenance cost per apartment was U.S. $53.44 in 1959, and the average construction cost of each apartment was in the order of $10,000. Since the average monthly income of the employed tenants (55 percent were either unemployed or semi-employed in 1959) was around $170, even the very small minority who were both able and willing to pay a reasonable proportion of their income were unable to pay their share of the upkeep and administration costs, let alone amortize the capital investment.

The designs of the two projects are radically different: a typical superbloque apartment (pictured above, photo: Author) has five inhabitable rooms, excluding a kitchen, and bathroom and water closet unit—a total area of 76 square meters. A family "dwelling" in the H blocks (pictured below, photo: U.S. Agency for International Development) has one room with an area of 12 square meters. Lavatories are communal and cooking is usually done on the corridors which run around each floor. The H block structures are, however, designed for subsequent conversion into larger apartments. The tenants are more effectively screened and rent arrears are negligible. In Hong Kong, the excess people who cannot be accommodated—whether they are unwilling or economically incapable—are located temporarily in "controlled squatter settlements."



The labor demand created by the superbloque program significantly increased migration into Caracas, so it is doubtful whether it reduced the population of squatters in the ranchos. In Hong Kong, the H blocks have reduced but did not fully eradicate the squatter settlements.

The Philippines: Sapang Palay. In 1954 the Philippine authorities attempted to relocate squatters in Manila eight kilometers from where they lived, but the squatters returned—having sold their subsidized plots at a profit. In 1963 a more attractive resettlement plan was produced. On the assumption that 50 percent of the squatters wanted to be resettled rurally if given agricultural land, 1,000 families were to be relocated at Sapang Palay, 37 kilometers and a two-hour bus ride from Manila. Notwithstanding many difficulties, a new settlement has now been created. As of August 1966, 2,800 of the 6,000 families initially relocated have remained. Aided by a community development program, the area is improving but very slowly. In spite of the distance, some 60 percent of the working population commute to Manila.

Chile: Jose Maria Caro settlement. Situated ten kilometers from the center of Santiago, this settlement has a population of about 100,000. Except for one area, it was settled under government auspices. Many of the settlers are from eradicated callampas ("mushrooms"), the Chilean word for squatter settlement. Unemployment among the ex-callampa dwellers is high and 25 percent of the households lack one of the principal members. Cultural and educational levels are very low and the area is unrelieved by minorities with appreciably higher levels or by any truly urban nuclei. Community facilities are conspicuously absent—there is neither a cinema nor a sports stadium. The squatters in adjoining Valledor Sur, a viable cooperative community, dissociate themselves as much as they possibly can from the Caro projects; within the projects there is a very low level of civic participation or activity. This contrast between viable and active squatter communities and socially problematic public housing projects is apparently quite general. Reports on the political behavior of the Caro project inhabitants imply that they are much more of a threat to law and order than those of the major squatter settlements, in spite of their legal status.

Pakistan: Korangi. The Korangi satellite town near Karachi now accommodates some 200,000 people. It was designed for an eventual population of 500,000 and planned as an industrial center with many road and rail links with the central city and existing industrial areas. These, however, were not provided before the massive transfer of inhabitants to the satellite, some 16 kilometers from downtown Karachi and over 20 kilometers from the main industrial zone. Very inexpensive expansible houses were built en masse for hire-purchase. Rentals vary between 7 percent and 36 percent of the average family income of PRs 100 [PRs 4.81 = $1], and together with "sweepers' services" the average is PRs 13.13 monthly. Transportation costs, however, are much higher—PRs 20.00 monthly—which means a total expenditure of one third of the average family's income for the privilege of living in Korangi. Although the housing and environmental standards are incomparably higher than in the jhuggis from

which many of the inhabitants came (and even though 75 percent were reported as being satisfied with their housing in 1961), there are serious problems: 80 percent of the rent cannot be collected. Of the 42, 000 families rehoused, most do not pay their hire-purchase installments back into the revolving fund supplied by the government, which prevents further expansion or other developments on the lines of Korangi.

There is nothing intrinsically wrong with the new-town principle for housing the homeless. It appears that the main cause of the difficulties experienced at Korangi was the failure to provide the jobs and the communications.

Lagos. The slum clearance and relocation program carried out in Lagos between 1955 and 1960 illustrates the constraints imposed on resettlement by the economic limits of adaptation to suburbanization. Lagos, like most cities in West and Central Africa, has barely started to industrialize; per capita incomes are extremely low and the major part of the city is composed of housing that is poor and overcrowded. When it was decided to clear an area of central Lagos, the original landowners were given two alternatives: either to purchase improved land in the clearance area or to accept new housing provided at Suru-Lere, a government-sponsored housing scheme several kilometers from the city center. A minority of the original inhabitants resettled in Suru-Lere—principally the younger and the better off. Some time after resettlement, the transplanted and acculturated inhabitants were reported to be happy with the change. But for many the clearance was a major tragedy which ruined many small businesses and worsened local housing conditions. The majority, to whom the redeveloped plots were offered, simply could not afford to repurchase and rebuild as well as re-establish their businesses. Local circumstances precipitated a division between those Lagos inhabitants able to suburbanize and those forced to remain in central areas.

Peru: Valdivieso. The permanent resettlement of families with a very low but reasonably regular income may be practical where sufficiently cheap building land is available near enough to the city. The Valdivieso project in Lima is one such case. This project, initiated in 1960, was situated only a few kilometers from the downtown area of agricultural land expropriated for the purpose, and provides sites and semi-provisional dwellings for 700 families. The only other facility initially provided was a series of drinking water spigots at frequent intervals. At the bottom of the 8 x 20 meter lots, a provisional dwelling of cane matting and bamboo was provided. The structure—including a concrete floor—cost approximately $260, the land $75 and the water $115, a total of approximately $450 for which a credit was provided of up to a maximum of 12 years at 6 percent

interest per annum. Few families are unable or unwilling to accept such a modest loan on such easy terms, and many still have a sufficient savings margin to commence the permanent building.

Settlement Incorporation and Improvement

In spite of the very considerable proportion of squatter settlements that are plainly permanent, remarkably little has been done to determine how they can be incorporated administratively and improved physically. Fortunately, there is a growing awareness of the wastage and the danger of overlooking the possibilities.

The most advanced effort to tackle this problem on a national scale is the implementation of a Peruvian marginal settlement law. A special commission, appointed in 1956, published an exceptionally thorough and perceptive analysis of the housing and urban situation. As a result of the commission's work, a law provided for the legalization of physically improvable barriadas, for the relocation of those that could not be improved economically, and for the provision of land at low cost for new, but legal, settlement. In Lima, where approximately 25 percent of the total population (now about 2 million) are barriada residents, four new municipalities have been created incorporating barriadas with a total population of over 300, 000 into the administrative structure of the city and granting to most of the inhabitants provisional title to the land they occupy. Barriadas have nevertheless continued to increase, in both density and in area, because provisions for new settlements were not made on an adequate scale. The two main reasons for this are the resistance of many technicians and administrators to the idea of allowing—let alone of encouraging—people to build in accordance with the "progressive development" principle; and the resistance of landowners to the enforced sale (at fair market prices) of their lands. Apart from the impressive progress made in some of the Peruvian barriadas, some initial experimentation has been carried on in Colombia.

The Urban Accommodation Projects

Little attention has been paid to the problems of the urban accommodation of the very poor. Important exceptions are the "sanitary slums" projects in India [see pp. 58-66], also in Morocco. As described in a recent UN report (E/CN. 5/392):

> A scheme for a "sanitary slum" was devised in one city in India. Occupants of an inlying slum were moved a very short distance to an area which the authority had planned, where it had installed utilities and built individual sanitary cores (water closet and shower). The families rented the land and, with the assistance

of loans and materials, constructed dwellings according to plan. "Interim" in this scheme meant 20 years. Two things happened: one group of families immediately started improving their property with paint, fences, landscaping and additions to the dwellings. These families refused to believe that they only rented the land—they were certain they owned home and land. At first the authority forbade these improvements on the theory that any family that had made its home so attractive, with its own labor, would be quite impossible to move at the end of 20 years. The authority changed this regulation later, in part because of what a second group of families was doing. This group, believing that residence was temporary, took no care of their property. Their buildings all but crumbled.

The problems arising out of this project can be interpreted as the consequence of failing to differentiate clearly enough between the "bridgehead" and "consolidation" functions. Twenty years is much too long a period of residence at the "bridgehead" stage; but it is much too short a period, as reported, to justify investment.

Policies for the Settlement of Potential Squatters

Many low-cost housing programs are designed to provide for those who have sufficient resources and interest to build and who will build whatever and however they can; but most of them have met with little success. The Chilean national housing ministry has claimed that the squatter settlement in Santiago has been effectively checked and that the number of callampas has been very greatly reduced through the popular housing program. These projects, designed principally for the relocation and anticipation of squatters, have included: lots with minimum services, core houses with an area of 18 square meters, and complete minimum houses of 70 square meters.

The other major national housing effort in Latin America is that of the Instituto de Credito Territorial (ICT) of Colombia. Although this institution has also practiced self-help on a relatively large scale and has built a large number of dwellings well below the average "low-cost" levels in the continent, little impression has been made on the squatter problem, which appears to have been gathering momentum during the past few years. An analysis of applications for ICT projects revealed that only a small porportion of those with income levels corresponding to the squatter populations even bothered to apply. Similarly, in Lima only 28 percent of the applicants for a very low-interest, low-cost housing program have incomes at or below the squatter settlement average.

Ciudad Guayana. Perhaps the most interesting "settlement strategy" is being tried out in Ciudad Guayana—a new industrial city, based on rich iron ore deposits in eastern Venezuela in a relatively distant and sparsely inhabited region. The new city, started in 1961, now has a population of about 85,000. Of these, some 50,000 lived there beforehand in scattered, disorganized settlements; arrangements for those squatters constituted the first and major problem.

Two difficulties were reported. The first was speculation by opportunistic squatters. The second was the extreme inefficiency of the pilot credit and technical assistance procedures. With the notion of creating "uncorrupted communities," procedures were designed to screen "anti-social" families. Consequently only half of the 80 percent who qualified persisted until negotiations for the loan were completed, and of these only half initiated construction.

As a result of this experience, procedures had to be modified and it was decided that:

1. Lots in settlement communities should be granted on the basis of first come, first served. Land speculation can be controlled by a lease arrangement that grants title to the squatter only after building an adequate house. Families should not be checked for need or screened for social acceptability, but kept track of, to avoid granting more than one lot to the same individual;

2. Shack replacement should be encouraged by eliminating income requirements for the purpose of granting construction loans. Anybody physically able, including the unemployed, should be permitted to build houses in settlement communities. To maintain sound financing, the squatters would have to build initially for a housing agency, not for themselves. Construction manuals can be provided which expose the families to a choice of novel housing types; the house has to be completed according to specifications and accepted by the agency. Then, the ownership of the house can be decided between the agency and the squatter. A self-help contract was developed which offers four options to the squatter:

(a) To receive payment for his labor according to the price prestipulated in the contract, after building the house and turning it over to the agency; (b) To continue building other houses and receive one free of charge for every three built for the agency; (c) To buy the construction materials and the lot according to a long-term loan provided he has the required payment capacity; and (d) To lease the house and pay the lease with his labor equity. This would carry him for three years. During this period he is likely to get a job in the city and be able to buy the house if he so wishes.

Whether or not the proposed control through financing, and turning the self-helpers into contract labor, is administratively practical remains to be seen. Experience in other areas suggests that it may not work out very well.

In three cases, at Villa del Rey, Panama City, Tahuantinsuyo in Lima and municipal housing in Piura, northern Peru, the only items offered initially were a plot of land, basic technical assistance with plans and specifications for house construction. In Tahuantinsuyo, Peru, administrative assistance was given to the *barriada* inhabitants, who were consequently able to form a credit union which played a major development role by generating funds for building loans and the establishment of local business. (Subsequently the credit cooperative was involved in negotiating an international loan for the installation of public utilities.)

If the economic efficiency of a government investment is measured by the value of the fixed capital it generates in proportion to public costs, then there is no doubt that these three projects are among the most efficient direct investments of public funds that have been made in the housing field. The only public capital required was funds to obtain and grade the land and to administer its allocation and the technical assistance. The rest—together with the repayment of the minimal initial costs—is provided by the inhabitants themselves and in their own time.

Conclusion

The gap between supply and demand is so great that it is unreasonable to expect ordinary low-cost housing programs to have a major effect on uncontrolled urban settlement. The most pertinent government schemes provide only basic components—land, utilities and community facilities, credits and technical assistance and, perhaps, core or shell houses. It is not only essential that the cost of services be within the economic reach of those to whom they are offered; it is equally important that the offer coincide with the ways in which the recipients are prepared to use them. Potential solutions will be projects which are geared to the life-situations of the people concerned, and which their governments have resources to implement on a sufficient scale.

[Excerpted from "Urbanization: Development Policies and Planning," *International Social Development Review*, No. 1. New York: United Nations, Department of Economic and Social Affairs, 1968, pp. 107-127. UN Sales No. E.68.IV.1.]

The Housing Threshold for Lowest-Income Groups: Calcutta

Alfred P. Van Huyck

[Mass urban housing needs can be met at very low cost if the government supplies only utilities and sanitation, leaving house building to private initiative. Two proposals carry this approach to Calcutta, where the need is very great.]

The urban housing problem in the developing countries has been a source of constant concern to administrators, architects, sociologists, economists, engineers, and planners, Various programs have been tried, but there is no consensus on the results of experience.

I am suggesting here that rapid and dramatic improvement in the standard of living is possible within the tight constraints imposed by the economist. This hypothesis hinges on thinking of the housing problem not in terms of the housing unit but, rather, in terms of the total environment in which the individual lives. The concept of a housing threshold is introduced here: it is not possible to provide housing on a massive scale commensurate with the needs, at any reasonable set of "minimum" standards, that people with incomes below a "threshold" level can afford to pay for.

If the concept of a housing threshold is accepted in the development of a total program for housing, it will be possible to maximize returns from the investment in housing by concentrating on environmental improvement programs for the lowest-income groups;

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and by establishing mechanisms such as savings institutions, housing cooperatives, self-help housing, etc., for those who can be assisted, at reasonable cost, to cross the housing threshold.

The Indian Housing Gap

Even though urbanization is not occurring at an unusually fast rate in India, the total population figures are still extremely high. Natural increase in urban areas is occurring at the rate of 1.5-2.0 percent per year, which on top of the 80 million 1961 urban population means approximately 40 million added during the next 25 years, and migration will add millions more.

Added to the sheer magnitude of the urban population is the severe complication of low incomes. Sixty percent of the households in urban India earn less than Rs. 2,000 per year [Rs. 7.58 = $1], and probably 25 percent earn less than Rs. 1,000. Assuming that households at these income levels cannot afford more than 15 percent of their income for rent, then monthly rentals of more than U.S. $2.00 cannot be paid by 50 percent of the urban households, and 25 percent cannot pay more than $1.50. This low capacity to pay rent precludes these families from utilizing the present Government of India schemes, regardless of the amount of subsidy or the attractiveness of the projects. It is not surprising, then, that the public housing program has been totally inadequate in dealing with the problem.

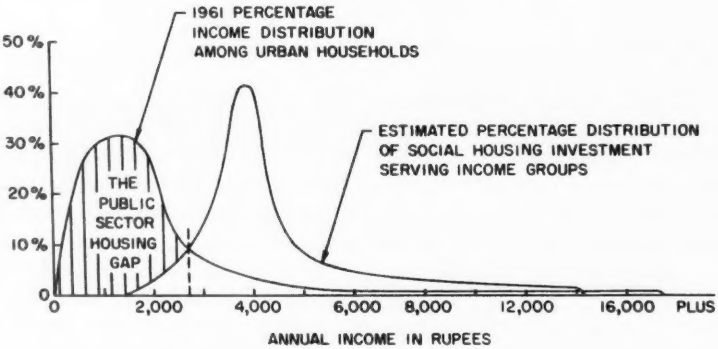
Expenditures on housing have increased in each Five-Year Plan, from Rs. 335 million in the First Plan to a proposed Rs. 2,500 million in the Fourth Plan. The percentage of the total Plan funds has, however, stayed relatively constant at 1.7 percent. The Government's housing program has consisted of housing for government employees and what might be called social housing schemes, the latter including a variety of programs designed to make housing available for people of low and middle income by a combination of loans and grants. These programs rely on subsidies of 60-75 percent of the economic rent for each housing unit.

Accepting the maximum allowable annual income at the ceiling of the income groups served, and establishing a floor by assuming that a family can afford 15 percent of their annual income as rent, it is possible to distribute the percentages of government funds sanctioned for housing among the income levels of urban households. When this curve is compared to the curve of actual income distribution of urban households (see Graph 1), it can be readily seen that the builk of public investment in housing is made to benefit the upper 25 percent of the income groups. For most of the lower 75 percent of urban households, there is no benefit whatsoever.

A careful research study is required to determine where the housing threshold falls on the income curve in urban India, but there can be no doubt that it exists, probably in the range of Rs. 2, 500-Rs. 3, 000. Any attempt to provide standard housing below that level is doomed to failure. There is a desperate need for new thinking about the kinds of programs that can be provided for people whose income falls below it.

GRAPH I

THE PUBLIC SECTOR HOUSING GAP



Source: India, Government of West Bengal, "A Proposal for a Low-Cost Temporary Urban Settlements Programme," unpublished document by Calcutta Metropolitan Planning Organisation, January 8, 1967.

Calcutta and the Housing Problem

Housing conditions in the Calcutta Metropolitan District (CMD) are described in the Basic Development Plan of the Calcutta Metropolitan Planning Organization as follows:

> Of the 6.7 million people in the CMD in 1961, 366, 000 were housed in institutions of one type or another (hospitals, colleges, jails, etc.). At least another 30, 000 had no housing at all. These were the pavement dwellers of Calcutta. This figure is certainly on the low side; the real number is extremely difficult to measure, fluctuating greatly with the seasons. [See Development Digest, July 1968, pp. 65-68.]
>
> The remaining 6, 325, 000 were in the 1961 "household population"—people residing in some form of non-institutional shelter. Altogether, they occupied 1, 329, 000 housing units, providing, on an average, one unit for every 4.76 persons. This ratio itself is not particularly high. The real problems of the existing housing supply arise from two other factors. First, most of the units are extremely small. In 1961, the average CMD housing unit size was only 1.55 rooms; the average occupancy rate was 2.99 persons per room. It has been estimated that 77 percent of all Calcutta families in 1957 had less than 40 square feet of living space per person. Second, the majority are in a squalid condition with few of the physical amenities of decent homes.

The results of the present failure to provide for adequate and sanitary housing to keep pace with population expansion are visible throughout the cities of Calcutta and Howrah, and in every municipality of the CMD. Everywhere the housing picture is one of deficit and deterioration. It is characterized by overcrowding, congestion, insanitation, inadequate water supply, high rents and premiums. Everywhere there is a great deal of illegal occupation and squatting on public and private lands—whether of refugee colonies built out of necessity on the vacant lands of absentee landlords, or of pathetic clusters of squatters in tattered and improvised shelters on public pavements, on the municipal refuse dumps, and indeed on any vacant site. Some must make do with unused nighttime space in factories and the passageways of apartment buildings, alleyways or footpaths.

These existing problems are overshadowed by the prospect of the future. If average standards of 2.5 persons per room and 2 rooms per housing unit are used, 430,000 new rooms, or 215,000 new units, would be needed to eliminate existing overcrowding and provide for the houseless population of 1961. Adding the amount required to accommodate the expected CMD population growth and maintain the 1961 vacancy rates, the total 1961-86 requirements would be 2.5 million new rooms, or 1.3 million new housing units. If the suggested space standards were to be met, it would be necessary to construct new housing units over these 25 years equal to 84 percent of the total 1961 supply.

These quantities are startling when seen in relation to the current output of the construction industry in the CMD. It is estimated that in the early 1960's between 6,000 and 9,000 masonry units were built per year in the Metropolitan District. According to the projections, however, the accommodation of new population growth alone requires 53,000 additional units annually.

Toward a Shelter Program Below the Housing Threshold

Two major and related programs in Calcutta have been developed to the point where actual work can now start. Both programs hold the promise of meeting the assumptions set forth here. The first of these is the Bustee Improvement Program, designed to make life in the existing bustees less intolerable. The second is the Low-cost Temporary Urban Settlement Program, designed to open up vast new areas for temporary occupancy by low-income families.

The Bustee Improvement Program. In Calcutta, the word "bustee" is used for a specific kind of slum development. "Bustee" is, in fact, a legal term which describes an area of at least one

sixth of an acre containing huts of temporary construction (using mud, bamboo, straw, and other loose materials). A hut usually contains eight to ten cubicles, which are rented to separate families. A bustee also represents a close set of economic and social relationships.

There are 1.2 million people living in bustees in the CMD. There are three levels of interest: first, there are the landowners, whose land has been given over to bustees either by historical events or by squatting (there are 3,200 bustee holdings). The landowner does not want the bustee on his land and has little hope of selling his land for anywhere near the market value of land unencumbered by huts, as there are laws that prohibit landlords from clearing the huts. Second, there are the "thika tenants." There are approximately 20,000 thika tenants, who own the 300,000 huts. They are supposed to pay a land rent, but, in fact, collections are small if paid at all. The thika tenant is frequently a resident in his own hut. They are small operators but together form a politically strong association. Third are the renters, who usually pay about $2.00 per month to live in one room in a hut. The bustees generally house a transient population, and offer the only available pool of shelter that low-income people can afford.

The Calcutta Metropolitan Planning Organization's proposed program for the improvement of the bustees recognizes that they cannot be cleared in the foreseeable future, but that very substantial improvements in the standard of living can be made within the existing bustees at reasonable cost. The following are proposed:

1. A water system to provide an adequate supply of clean and safe water for the daily needs of bustee residents. It is proposed that tubewells be used to provide water.

2. Community water taps and baths: one water tap for every 100 persons and two baths for every 100 persons.

3. A sanitary sewer system, including necessary sewers and appurtenances.

4. Sanitary latrines, at a standard of four per 100 people, will provide approximately one sanitary latrine for each hut.

5. Inadequate or non-existent storm drainage facilities presently result in washouts of structures, flooding, and generally unsafe and insanitary conditions. These deficiencies will be corrected by the proposed storm drainage system.

6. Pavements will supplement the storm drainage system and provide safe and clean paths where they do not presently exist.

7. Street lighting is proposed at regular intervals and at crucial locations where walkways cross or turn.

8. Water tanks (or pools) are found in almost all bustees and at present constitute health hazards in nearly all cases. It is proposed that they be treated in a variety of ways, depending upon the conditions prevailing in individual bustees. Wherever possible, tanks will be preserved and made sanitary to eliminate whatever health hazards remain, after sewerage has been provided and service privies have been removed.

A basic part of the concept is that the landowners' interests will be purchased, by a combination of bonds and cash. The basis of the compensation has been proposed at 30 times the annual rent received by the landlords. It is not expected that the landlords will object, as this capital invested elsewhere will greatly improve their returns. The land will become an urban land bank for the future development of the city. As clearance of bustees becomes financially possible or when important new uses must be sited within the city, land will be available. The rights of the thika tenants will remain unaffected, but they will have to pay ground rents to the government.

The proposal also calls for a vigorous urban community development program. Both the Public Land Acquisition Program and the Urban Community Development Program are basic parts of the second major proposal to create new temporary urban settlements on the edges of the city.

The Low-cost Temporary Urban Settlement Program. This proposed program is a logical extension of the Bustee Improvement Program for the existing slum areas. The same kinds of improvements will be provided at the same standards. In addition, there would be an overall development plan for each area which would lay out the communities in an organized way. Community facilities, such as schools, dispensaries, and play space, would also be introduced—but using temporary buildings.

These areas would then be equal to the improved bustees, with better community facilities, and far superior to the slum accommodations otherwise available at the same general rent. If sufficient improved land is made available to absorb the full growth of the population, then it should be possible to use the police power to prevent squatting and uncontrolled bustee formation on the edges of the city.

The idea that these areas will be temporary is an essential part of the overall concept. "Temporary" as used in this program assumes occupancy up to 15 years. The sites for temporary housing

will be on land at the fringe of the city, which in 10 or 15 years will be required for permanent construction of industry or other types of housing. The necessary roads and utilities can be put in in advance and used for the temporary housing on the site and then converted to the permanent uses later on. The residents of the temporary housing can be relocated to a similar facility a short distance away.

The financing of the temporary structures will be so arranged that they are completely amortized by the end of the period when it is proposed to terminate the housing in a particular location. This program is based on the assumption of an on-going development program building upwards of 40,000 units per year. This will insure a constant supply of relocation housing within a short distance of the existing housing which is to be eliminated. In this manner, the city can expand in a logical and economical pattern—the urban land required for permanent construction coming into the market in a systematic and organized process in the locations required by the overall development plan.

In order to undertake a massive urban settlement program, it is necessary to identify the cost components of which it will consist: (a) costs that must be amortized with the useful life of the housing unit, and (b) costs that are convertible into assets at the end of the useful life of the housing unit.

If the proposed settlement program is to be without direct subsidy, it is necessary to assign each of these to a source of revenue sufficient to meet the cost. The tenant is the obvious source of revenue, and he should carry the project without subsidy and yield a profit to the housing promoter and investors. However, to meet the massive housing needs of the lowest-income people, the monthly rents must not exceed $2.00 per month, and rentals at that level are not sufficient to cover the total cost.

The most likely way to reduce the total cost to the tenant is to free the tenant from the cost of the land and the carrying charges. In the rising land-price situation found in the Calcutta area today, it is reasonable to suppose that the value of the land will increase during the lifetime of the project. This increase in value, if it maintains a rate of increase equal to the cumulative interest rate on the capital invested in the land, can be realized upon the sale of the land at the end of the project period to its ultimate public or private user. The lender of the original capital is then paid off in a lump sum with accumulated interest.

The obvious source of funds for this type of investment would be the government. Such loans would be a much better investment than the present system of subsidizing housing directly. The government

could sell the land for private construction according to the overall development plan for an area, thereby controlling the ultimate construction of the site. An urban land bank will be created, which will make available sites for public purpose projects at optimum locations.

The cost of improvements of the site, such as land filling, main roads, trunk sewers, and water mains, can also be charged to the ultimate developer. Since these facilities have useful lives of 50 to 100 years, they will be represented in the increase in the value of the land.

The costs of the project that are tied to the life of the housing units must be carried by the tenant. The largest of these is the cost of building the unit itself. High building costs are not necessary in the type of temporary housing scheme under consideration here. Savings can be made by placing the water taps, baths, and latrines outside the dwelling unit on a shared basis. Further savings can be made by building only one-story buildings. Instead of square-foot construction costs near $3.50, there should be no difficulty in providing semi-permanent shell housing at less than $.40 per square foot, amortized over a 15-year project life.

The problem of rent collection and management is found in all housing projects run by the government. There is a great reluctance on the part of government to enforce rent collection procedures, and the powers of eviction are difficult to use effectively. It is proposed, therefore, that the thika tenant system, partially modified, be continued in the Low-cost Temporary Urban Settlement Program.

1. The thika tenant becomes a buffer between the occupants of the housing and the government. Since the government is only the landlord and not the hut owner, no protests over standards of the housing, treatment of the occupants, or methods of operation can be mounted effectively against the government.

2. Since the thika tenant will be responsible for collecting rents, selecting tenants, and, if necessary, evicting, the government's responsibility for management is greatly reduced, and its source of income from the project will be more reliable.

3. The thika tenant will bring to the project the necessary private capital for the individual shelter units, thereby substantially reducing the overall cost to government for the project.

The government would enter into a lease agreement with each thika tenant regarding the time of occupancy of the site, the land

rent to be paid, the services and facilities the government would provide, and the standards required for the individual shelter units. Government might also consider building the shelter units directly and selling them to the individual thika tenants.

If the Low-cost Temporary Urban Settlement Program is implemented at the scale proposed, the supply of shelter units should be great enough that rents will be kept reasonable by the law of supply and demand.

Partial Precedents

The general conclusions drawn for Calcutta are indirectly supported in the work under way in Madras and Delhi. These cities are already undertaking variations of low-cost temporary urban settlements, with various degrees of success. Officials in both cities do not point with any particular pride to these projects, even though they seem to be reasonably popular with the people who are living in them. The most apparent reason for this is the belief that, somehow, government should be providing better housing and not creating new slums, no matter how much improved the standard of living in them may be.

The low-cost housing experience in both Madras and Delhi, however, proves that this kind of housing can be provided on a large scale. Further, the slum dwellers do not seem to be highly motivated to desire high-quality housing; the location of living space is more important than its quality. When asked what kind of housing they wanted, their comments almost invariably turned on the environment—particularly better water supply and drainage.

Both the Madras and Delhi schemes, however, fall far short of the optimum that is possible in this type of housing. Management has proved extremely difficult, and the low level of rent collection is a clear indication of difficulty. The lowest-income people, once admitted to public housing, seem to feel that because it is government housing they should not be required to pay rent, which makes an impossible management situation.

[Excerpted from "The Housing Threshold for Lowest-Income Groups: The Case of India," Urban Planning in the Developing Countries, edited by John D. Herbert and Alfred P. Van Huyck. New York: Frederick A. Praeger, Publishers, in cooperation with PADCO, Inc., 1968, Chapter 4, pp. 64-107.]

Urban and Regional Imbalances in Economic Development

William Alonso

[Although many people fear the effects of the growing concentrations of population in the large cities of developing countries, the evidence available points to continued urbanization as a road to economic efficiency. While this can lead to increasing inequalities of income in the short run, there seems to be an equalizing counter-trend as development proceeds further.]

Most developing countries seem to think that they suffer from gigantism of their principal cities, and this view is shared by many experts. It is an ill defined disease. In some cases the worrisomely big city is quite small by comparison to urban areas in other countries, but looms large and is growing rapidly by comparison to the other cities in the country. This phenomenon has been called "primacy" and is often thought to be associated with underdevelopment or the early stages of development.

The most common economic argument for calling this concentration excessive is the belief that per capita costs, particularly for infra-structure investment, rise after a certain urban size. However, there is no agreement as to the size at which this occurs; nor is there solid evidence that costs do in fact increase with urban size for a given level of services and facilities. A companion argument points to the extreme differences in income between the principal cities and the more backward areas, and policies for the development of the less advanced

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regions are frequently justified on the grounds of economic justice, although it is sometimes also argued that such policies serve to accelerate total national economic development.

Differing Policy Goals and Concepts

Urbanization and regional policies often try to steer development away from over-urbanized regions, and to attract or promote it in backward regions. Two different goals are involved in these policies: efficiency and equity. By efficiency is meant national economic growth, often measured in per capita national product. By equity is meant a more equal distribution of income. Other goals are possible; for instance occupation of territory for national defense; or the use of regional planning as a technical device to insure the territorial congruence of plans which have been drawn sectorially; or the pleasing of dissatisfied populations to promote political stability. However, these other goals seem to be more randomly held. Efficiency and equity are two different, commonly held goals, and they may be in conflict. It is conceivable that the path of fastest economic growth may imply sharp geographic inequalities, concentrating wealth and power in a few advanced centers and condemning backward areas to lengthy periods of poverty. Conversely, policies of regional equalization may slow down the growth of the total economy.

We must also take into account the theory indicated by the term "growth poles," associated with Francois Perroux. It emphasizes the role and the importance of principal regional centers for the economic growth of regions. It justifies policies that seek to equalize income between regions while recognizing the correlation between urbanization and development by building up regional centers. Such a strategy has been called "concentrated decentralization." However, it must be noted that even if regional income averages may converge and become more nearly equal, it is perfectly possible that inequalities in income within regions will be greatly increased, so that no improvement is obtained in the distribution of income among the population as a whole.

More importantly, there is no guidance in the growth pole concept as to the proper size of regions and centers. Thus, a country too finely divided into many regions would be inviting a spreadout and probably inefficient distribution of investment over its territory; on the other hand, a country too grossly divided into few regions might mask over-urbanization or primacy behind regional averages. Nations vary greatly in their population; all of a small country may be smaller than a region in a large country, and a pattern which might be viewed as perfectly acceptable dispersal in the large country might be viewed with dismay by the small one as extreme polarization. To illustrate: the total population of Chile is about half that of

the New York metropolis and its total gross national product is comparable to that of metropolitan Buffalo, New York. Yet Santiago, it appears to be generally held, is becoming too big. The principal argument used to demonstrate the excessive size of Santiago is its large size in proportion to total national population and to national urban population. Yet, if a long-range view is taken, and Chile is viewed as part of a Latin American common market, the size of Santiago seems rather small in an array of cities that includes Rio, Sao Paulo, Buenos Aires, and Lima.

Questions of Fact

Within the efficiency goal, complementary policies for urbanization and regional development contain implicit assumptions regarding questions of fact which have not yet been demonstrated. The two principal ones are: 1) urbanization costs per capita (for housing, services, commuting, etc.) rise after a certain population size, and consequently large cities are uneconomic locations for development; and 2) the less developed regions, being relatively virgin territory, must hold opportunities for very high returns. In a sense, these views amount to a simple concept of diminishing returns to scale with size, implying that returns are higher in the less developed regions. If this is true, there appears to be no conflict between the goals of efficiency and equity, since total product would be maximized when all regions are equally developed.

As of today, virtually every nation that deals with this issue in its national plan has based its policy on the belief that its principal city is too big, regardless of its size. Among the many developed countries which are following policies of relative or absolute dispersal are France, Great Britain, Poland, and the U. S. S. R. Among the underdeveloped countries, Puerto Rico, India, Chile, Venezuela, Ghana, and Egypt are just a few of many. However, these plans very seldom state with useful clarity their assumptions of fact or their policy alternatives. The basic questions remain: are bigger cities actually less efficient than smaller ones? Are there in fact rich unexploited opportunities in the more backward regions? If the answers are in the negative, efficiency goals will be served by encouraging geographic concentration and regional inequality.

Efficiency and Size

First, let us examine the matter of relative efficiency of urban size. Per capita costs of urbanization are said to decline, to a point, and to rise thereafter, but there is no consensus in the literature on the population size at which this turning point is reached. But even if we knew the point of least costs per worker or inhabitant, the issue of optimal size for efficiency would not be answered. If

costs rise after a certain point, but productivity is rising faster (by reason of economies of scale), big cities will yield a greater net return per worker or inhabitant than smaller ones.

All of these statements must unfortunately be couched in the conditional form; although this is a central issue for the planning of development, there exists an abundance of opinion but a paucity of facts. Detailed data exist, to my knowledge, for only two countries, both among the wealthiest. In the cities of the German Federal Republic, per capita regional product rises with population considerably faster than governmental expenditures including welfare. In the United States, per capita income rises strongly and unequivocably with urban size. Governmental expenditures per capita tend to rise, but by far smaller absolute magnitudes. This suggests that if an "optimal size" does indeed exist, it is far likelier to depend on the productivity-per-capita function than on the cost-per-capita function.

In sum, there is no basis for the belief that primacy or overurbanization per se is detrimental to the efficiency goal of economic development. On the contrary, there are good grounds for believing in increasing returns to urban size.

Efficiency and Concentration

There has been no empirical demonstration that a policy of regional equalization is consonant with rapid economic development. On the other hand, there are numerous demonstrable advantages in centripetal concentration, some of which are the following.

The transport network is typically not a full lattice covering the national territory, but rather a tree-shape in which the branches converge on the great port cities. These cities may appear peripheral on an ordinary map, but they are the most accessible in functional terms to the nation as a whole. Further, the frequent necessity for import and export of products and materials in the productive processes of developing nations gives extraordinary importance to these break-of-bulk points. Neither is information evenly available. The more remote the region, the less is known about its local customs, the chemical and physical properties of local materials, the quality of water supply and a thousand other things, all of which add to the uncertainty of the investment decision, whether private or public, and thus require higher margins of return to justify investment. These uncertainties are, of course, in addition to the certainties of poorer communications, slower deliveries, incompetence or absence of supporting services, etc. The uncertainties add to the risks, and the certainties to the costs, and both lead to a need for large and clear advantages to justify locations outside of the developed centers.

A further important factor in the location of industry in developing countries is that of entrepreneurship and technical skills. Universally, managers and technicians prefer to live in the major cities for obvious personal reasons. Inducements to get them to go to less developed areas are not only likely to be expensive, but, even when successful, may bring only second-raters. The quality of management and the competence of technicians is likely to be the most important single factor for an enterprise, especially in developing countries. This is because the uniqueness and fluidity of each situation call for the highest order of personal ability and energy, since precedents and the supporting institutions are deficient. Further, especially in the area of management, conditions in developing countries change rapidly and often unpredictably, as ministries are reorganized, regulations are changed, the cost and availability of funds fluctuate, relative factor prices vary suddenly, etc. Information is likely to be vitally needed on short notice because of the rapidity and frequency of changing circumstances. The sources and modes of this information are unperiodic, unpredictable, and require cultivation of sources, evaluation of intangibles, and delicate negotiations which can only be conducted through personal, face-to-face contacts. They exercise a tremendous pressure toward spatial concentration.

Public and Private Efficiency

These pressures toward location in the large cities are only slightly less likely to operate in the case of state enterprises than in the case of private ones as long as the efficiency goal is the principal one considered, and the equity goal is seldom recognized explicitly. Yet other considerations within the efficiency goal may result in different location strategies between nationally planned growth and incremental project-by-project growth, whether private or public. The most important of these is the issue of external economies. We must refer again to the macroeconomic consideration of efficient urban size. A particular project or group of projects, each of which may be of little interest in itself, may in conjunction serve to bring a particular region or secondary urban area to a "critical mass" sufficient to start off vigorous and self-sustaining growth, and may thus be justified in terms of induced external economies.

We have only vague and anecdotal ideas as to the conditions for such growth: there must be a sufficient variety of activities that unexpected relations and complementarities can be discovered, and so that efficient specialization is possible; the pool of skills must be sufficiently large and varied to permit change and adaptability; life for the upper classes must be sufficiently varied and interesting to keep the best men from fleeing provincial dullness; local markets must become large enough to attract their own suppliers; the

demand for some services must become large enough to justify some major forms of infra-structure such as large airports or specialized financial services. All of these things are relatively well known, but we do not know much about the critical sizes or thresholds involved, especially for the subtler forms of human interaction, so that we cannot measure or predict the contributions to externalities of particular projects, even in cases in which these would be decisive in the calculation of costs and benefits.

Long-Run View

Project-by-project analysis must of necessity assume the stability of certain parameters and be essentially incremental. A long-run view of development in a nation, however, must anticipate that fundamental transformations will occur, although their precise form may not be known. Location theory adapted to developing countries would indicate that the efficiency goal is best served by a policy that permits concentration, at least in the short run. Long-range considerations of the changing macroeconomic landscape may modify this position, perhaps to one of concentrated decentralization.

Some recent theory and empirical evidence suggest that concentration is typical of the take-off stage of development, and that equalization takes place as the economy matures. Albert Hirschman and Gunnar Myrdal arrived at fairly similar models of spatial polarization of economies in the process of development. In the early stages of development the advantage lies with the developed centers, which enjoy the existence of overhead facilities, external economies, political power, spatial preferences of the decision-makers, immigration of the more vigorous and educated elements from the underdeveloped regions, flows of funds from the land-wealthy in the hinterlands to the financial markets in the cities, and a variety of other factors. These factors lead to polarization, i.e., concentration in the large cities and increases in the differences of regional incomes. After a certain point, however, certain "trickling-down effects" come into prominence. The spread of literacy and bureaucratic practices improve knowledge in and about the backward areas; the opening of transportation routes to reach these areas as markets for the developed centers also opens them as possible locations for productive activities; universal education and standardization of all aspects of life permit an integration of the space-economy and, by making externalities more nearly comparable everywhere, make the more distant opportunities more accessible and more interesting for development. Thus in the early stages of development there will be increasing disparity between developed and underdeveloped regions, but there will be a tendency toward equalization as the economy reaches maturity.

Two recent empirical studies support this view. Williamson's findings are: 1) regional disparities are greater in less developed countries than in the more developed; 2) over time, regional disparities increase in the less developed countries and decrease in the more developed. These findings suggest that regional inequality, if plotted against economic development, would result in a bell-shaped curve, with some peak being reached at the transition from the take-off to the mature stage. Similarly, El Shaks finds that a cross-section of the world's nations results in a near-normal curve of primacy on economic development. That is to say, primacy is rare in very underdeveloped countries, rises during the take-off stage, and decreases thereafter. This does not refer to suburbanization of large cities, nor does it mean that the large urban areas break up and become smaller. Far from it, the largest cities continue to grow in the mature stage of the economy, but the secondary centers grow faster.

These observations indicate that polarization, regional inequality, or primacy are normal aspects of the early stages of development, corrected by natural processes with the achievement of development. Primacy, over-urbanization, and gigantism are not diseases but growing pains. It is tempting to conclude that national policies need not concern themselves with fighting further urbanization in the principal cities or with regional balance as such, and that developing nations should concentrate on speeding the growth of national product. An invisible hand may be at work, and, given world enough and time, it may reconcile the efficiency and the equity goals. But there exist the realities of political pressures and the equally real desire among many for early equalization.

Conclusions

A policy that pursues urban concentration is a possible path to satisfy the efficiency goal. Such a policy may also be in agreement with the equity goal, especially in the long run. We do not know whether long-run structural changes might make possible some form of decentralization policy that could satisfy the efficiency goal as well or better while recognizing the equity goal earlier; and in any case there are no good quantitative criteria for comparing regional distributions through time with respect to equity.

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Urban Jungles of West Africa

Stanislav Andreski

[The extremely fast growth of city populations, unaccompanied by equivalent increases in available jobs, has led to a rough scramble for scarce goods and a breakdown in traditional morals and behavior faster than new behavior norms can be built up.]

The process of urbanization in West Africa has been very fast during the last decades. Since 1921 the population of Dakar has increased from 32, 400 to 366, 000 in 1963, that of Freetown from 44, 000 to 100, 000 in 1960, of Accra from 38, 000 in 1936 to 338, 000 in 1960, that of Lagos from 99, 000 in 1921 to 450, 000 in 1962. Kumasi grew from 24, 000 inhabitants in 1921 to 190, 000 in 1960, and the population of Ibadan which is now given as 600, 000 has more than trebled since 1921. Abidjan in the Ivory Coast increased from 17, 000 in 1937 to 187, 500 in 1960, and Cotonou in Dahomey from 8, 000 in 1931 to 54, 100 in 1960. Most of this increase was due to migration from the countryside. But, unlike 19th-century Europe, this rural exodus takes place without any widespread increases in agricultural output; nor is there anything like an increase in industrial or other urban employment comparable to the numbers arriving in the cities.

The following brief sketch of the evils attending unproductive urbanization does not apply to all the areas of tropical Africa in equal measure. The violence accompanying the scramble for scarce goods depends in the first place on how acute is the scarcity. So it is not surprising that strife, squabbles and robbery

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are more conspicuous in Nigeria and the Congo than in Ghana and the Ivory Coast, where the estimated income per head is about double. Our analysis does not fit Somalia, Niger and Chad, which are a great deal poorer than Nigeria and the Congo, but there the old tribal structures have suffered little dislocation and consequently the pressure of population on resources takes the form of tribal affrays rather than of urban gangsterism and crookery.

Tribalism and Morality

One important difference between migration to towns in Africa as compared with most other parts of the world stems from the survival of the communal land tenure. An African migrant retains his right to land held under communal tenure. Consequently, there is much more movement to and fro in Africa. Coupled with the persistence of clan solidarity and the readiness to form associations for mutual aid among migrants from the same village, the bonds with the ancestral home prevent an utter pulverization and degradation of the new townsmen. But while preventing the extremes of despair and misery, these factors impede the crystallization of urban order. An African who goes to town does not usually sever his connections with his tribe and clan: he seeks out his clansmen, who seldom refuse him help, and whom he is ready to help in return.

Tribal codes of ethics confine duties and obligations within the tribe, and ignore strangers as creatures without any rights; apart from quasi-diplomatic occasions, it was legitimate to kill or enslave them. Whereas in Europe or Asia the processes of widening the moral horizon beyond the confines of the tribes stretched over many centuries, in Africa the supra-tribal economic and administrative structures have emerged so suddenly that the change in attitudes could not keep pace. In consequence the inhabitants of the big cities find themselves without moral guidance in their dealings with most people with whom they come in contact—for their clansmen or even tribesmen constitute usually a small part of the population of any large town.

This must not be forgotten when we try to understand what appears to be a war of all against all which is going on in the African cities. In fact, it is not quite a war, but rather a transplantation of the conflicts between tribes and clans, brought about by a heaping up of tribal splinters in an urban environment where fraud, theft and politics have replaced the traditional tribal warfare. Urban existence in most of Africa is characterized not by highly organized violence but a kind of diffuse, unregulated scramble, stemming from the fluidity of the social structures and the absence of efficient organization.

Most of the inhabitants of African cities are very poor, although they seldom have to starve. In many cities the unemployed outnumber the employed, and a large number of women (perhaps even the majority of the young) gain their livelihood through prostitution. Most of the unemployed would like to work, and a mere rumor that there might be a job vacant will attract a crowd of applicants in a matter of hours. (In Nigeria, young men may give "applicant" as their occupation—which in fact it is, as some of them write several applications every day for years on end.) Particularly in the new towns, the overwhelming majority of the inhabitants (in some cases perhaps over 90 percent) are under 30, with men outnumbering women by 3 or 4 or even as much as 6 to 1.

The unemployed young men live on the charity of their relatives. A good part of them take to stealing or smuggling or some form of crookery as their main occupation, while most of the others will not refrain from getting something by such means if an opportunity comes their way. The crime rate is rising very fast, and many towns which only a few years ago were quite idyllic now contain strong bands of robbers, some of whom work in collusion with the police. Those who own anything devote much time and money to protecting their property—the Africans using their poor relatives for this purpose while the expatriates make elaborate arrangements to prevent their servants from robbing them, employing at least one night-watchman for each house and sometimes a day guard as well. The more important people have police guards at their gates.

An important contributing factor in the prevailing lawlessness is the embryonic character and deficient vitality of the professional groupings, as it is the pressure of the opinion within such groups that in old-established urban civilizations enforces norms of which the law takes no cognizance. There are professional associations in Africa but they are too recent to hold genuine loyalty. In a typical developing African town, the majority of the inhabitants are first generation. The professionals know very well that in Britain or France people of their occupation have certain definite ideas on how they should behave, but they themselves have not been drilled in these prosaic virtues during their most impressionable years.

Their convivial intercourse and their deeper friendships are circumscribed by the boundaries of the clan and tribe rather than of the profession. The only regularly recognized duties are those towards the clansmen who are the people that really matter. A lawyer or an official is less concerned about his professional reputation (except insofar as it affects his earnings) than about whether he is well thought of by his kinsmen. One indicator of this state of affairs is the absence of business partnerships between non-kinsmen. This applies even to lawyers who have been trained in Europe—and

therefore constitute one of the most westernized social categories. Apart from mutual mistrust, their function as battering rams on behalf of their clans would lead to a break-up of the partnership as soon as a clan brother of one of them would come into conflict with the clan brother of the other.

Family Disintegration

Tribal customs and morality do not survive intact in the cities, and are steadily being undermined by the weakening of family ties. Distintegration of the family has been a regular feature of massive migration to cities in all parts of the world. In Africa the impact of transplantation is even greater than it was in Europe at the time when the industrial cities began to grow because the African migrants are not villagers accustomed to systematic work but tribesmen who until very recently regarded war and hunting as the only activities worthy of a man, and left tilling of the soil to women. Certain aspects of African modernization become understandable if we remember that the men have imbibed a tradition that many activities defined as "work" are something for women only.

In most parts of Africa, to get a wife a man must pay a substantial sum to her father. Traditionally, the husband provided each of his wives with a plot of land which he had cleared, built a hut for her and her children, and then expected her to provide him with food. To be exact, the provision of game and in some areas of yams were men's responsibility, but on the whole it was the women who were providing the food for the family.

Although a townswoman has no land to till and therefore cannot directly produce any food, her husband expects her to feed not only herself and the children but him as well, and so provide him with a return on his investment in the bride-price. His attitude to the money he earns is analogous to that of his ancestors towards war trophies: it is something not to be given to women. There are, of course, local variations in customs, and individual exceptions are also found; but in many cases the ordinary townsman gives little to his family, and spends an inordinate part of his earnings on his clothes, except when he is saving to get a wife. It is symptomatic that in the African cities the shops with men's wear figure more prominently than those catering for women.

As clerks and shop assistants are mostly men, and the most lucrative kind of domestic service (namely, for the expatriates) has since the early colonial days also been reserved for men, the opportunities of employment for women are restricted. Actually there are only two occupations which women can ply without harassment: market trading and prostitution, which are frequently combined. As trading

requires a certain amount of knowledge of the town conditions and some capital, be it only a few shillings, prostitution often provides the only entry into trading for a girl who arrives from a village with nothing.

The disintegration of the conjugal as well as of the extended family cannot fail to stimulate crime and the ruthless scramble for money. It affects the first generation townsmen, many of whom roam around as irresponsible drones, but who would have been moving within a strictly enforced code had they stayed in the ancestral village. Even more prone to crime or semi-criminal behavior are the second generation young townsmen who have been brought up in the slums without much parental control, thrown into a heartless urban environment to fend for themselves. Many of the most painful aspects of African development stem from the fact that the dissolution of the old ethics, and of the tribal and family solidarity, goes on faster than the emergence of new norms and ideals.

Why go to Town?

The preceding grim account of city life raises the question of why the villagers go to towns already full of paupers. In the first place it is owing to the pressure of the population on land. Secondly, as the rural society is dominated by old people, the young men and women have to work very hard and are obliged to surrender most of the fruit of their exertions to their elders, so by going to town they can escape from this severe discipline. The most important inducement, however, seems to be that migration comprises an element of a gamble. A man who stays in the village knows that, while he may accede to certain privileges with age, he will certainly remain poor to the day he dies; whereas if he tries his luck in a city, he may end up even poorer but at least he has a chance of something very much better.

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Anticipatory Urbanization in Davao, Philippines

Robert A. and Beverly H. Hackenberg

[The unusual urban development in Davao presents a growth pattern which may be of interest to other countries as a way of circumventing some less appealing aspects of urbanization.]

At the end of World War II the developed area of Davao Province consisted of the city itself and a thin coastal fringe of coconut and abaca plantations. The city which grew up under the impetus of this plantation economy was a curiosity of urban geography. The name which it bears is given to the province which contains it, to a huge and partly rural incorporated area known as the chartered city, and also to a much smaller port community known as the city proper. Within the chartered city of Davao and impinging upon the port community are many farms (in 1960 there were 13, 400 farms containing 10, 000 hectares of rice, 15, 000 hectares of corn, and over one million producing coconut trees). Conversely, today as yesterday, many "urban" facilities (hotels, airport, warehouse and industrial sites) are located within plantations, while thousands of farm workers and their families reside within the city proper.

Only the grain producers are post-war additions; pre-war Davao produced very little of its own subsistence, and most foodgrains were imported, emphasizing the colonial orientation of its economy. No manufacturing in significant quantities was carried on since the major products, abaca and copra, were exported as raw materials.

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Development Since 1948

At the end of World War II, the strip of coastal plantations—a legacy of pre-war investment owned mostly by Japanese—found its way into Filipino hands through the agency of National Alien Properties Commission. A highway had been opened between the cities of Davao and Cotabato during 1936-41, and after the war another road extending northward connected it with the Province of Agusan. Crude as they were, these links provided access to two previously unexploited resources which became the basis of the present development boom: interior cropland and commercial timber.

Since land must be cleared by timber cutters before it is available for cultivation, the two industries have an interdependent relationship, and the advances of settlement have kept pace with the retreat of the timber line throughout the Province in the years since 1948. Today the largest Philippine lumber exports to Japan continue to flow through the port of Davao; and the province leads the nation in corn production as a result of its agricultural growth. Rice production was equal to one third the volume of corn for the same year, and over half of that was harvested from irrigated fields with a potential for much greater yields from new seed varieties.

The population of Davao Province grew from 365, 000 to 893, 000 between 1948 and 1960, an annual average increase of 12 percent. One of the main agricultural areas, the Digos-Padada lowland south of Davao City—a 400 square mile intermontane river valley—increased from 35, 000 to 186, 000.

The Participants in Post-war Development: The Elite

Filipino investor-developers in the timber concessions have replaced the American and Japanese owners of coconut and abaca plantations as the socio-economic elite of Davao City, but rather little social change is initiated by this transfer. The new Filipino elite belongs to a national level (if not international) social class with diversified family investments in plantation crops, urban real estate, transportation, and mining interests throughout the country. Descendant from the old "Spanish" landed nobility for the most part, it maintains a caste-like isolation and solidarity. Its new homes in the Davao suburb of Matina are detached from the city and surrounded by patrols of private guards.

Most of the wealth created by the lumber industry apparently has little trouble escaping the region. There is a government requirement that holders of the larger timber concessions must build local plywood factories for manufacturing within the Philippines, and, there are 19 operating wood processing firms in Davao, including

six plywood and veneer manufacturers. But there is less evidence of other major benefits, either in backward linkages to the countryside or secondary and tertiary enterprises, than might be desired by the development economist.

Instead of the usual urban factory community, the lumber business, in mutual adaptation with previous land users, has created its own evolving structure: the industrial estate. To the north and south of the city proper are a number of elderly coconut plantations with ocean frontage. Having purchased one of these agricultural domains, a timber company will construct a lumberyard, sawmill or plywood factory within it, together with wharf facilities for shipping. Since the plantation continues to operate, copra production and cattle raising may occur simultaneously, and their yield will be added to the cargo exported.

The Middle Group

A small-investor class of immigrants, mostly literate but lacking in special skills, has concentrated upon the agricultural frontier. What we know of these immigrant pioneers comes largely from the research in the Digos-Padada Valley. Most of the occupants of this Valley have arrived since 1948, with 1950 being the peak year for homestead registrations. The immigrant population originated in the corn-consuming areas of the Philippines. Families which settled in the river valleys could shift from corn to rice cultivation, while those who chose the hilly uplands could resume their traditional forms of cultivation. In the lowlands a conspicuous transformation has resulted from a communal irrigation system. The irrigation system, together with its feeder roads and bridges, serving over 10,000 hectares, has been constructed by self-organized communal labor since 1953.

The decision to migrate to Mindanao has brought economic security, if not wealth, to both the corn and rice cultivators. With triple the corn yields, and with 2-3 hectares per farm instead of 0.5, the Davao farmer is 12 to 15 times better off than if he had remained in Cebu. And if he cultivates rice, the margin of improvement is even greater. Even if the wealth created by the timber industry has gone to perpetuate the old order, it has at least helped to clear the way for these agriculturists who represent the new order. They are receptive to new types of organization and technology. Their demonstrated capacity for self-organization and desire for self-improvement has been linked, in Davao, with access to resources and markets.

On the pioneer fringe are found the raw materials for rapid upward social mobility. Interviews have revealed the smallholder's essentially commercial rather than subsistence attitude toward his

farming, his awareness of markets and prices, his attempts to develop resource allocation strategies, his belief in the superiority of mechanized farming over tenant farming, and his desire to keep his holdings intact rather than fragment them among his descendants. A strong desire to secure technical or professional educations for children was repeatedly expressed, together with a willingness to make financial sacrifices necessary to achieve this goal.

The Urban Poor

Not all the immigrants to Davao became farm families; many did not have the capital to clear and develop a claim of land, and many have been eliminated from homestead claims through crop failure. Others are descendants of plantation workers who have had neither interest nor experience in grain production. These people arrived in groups and settled in neighborhoods together. They have crowded into the older section of the central city, though most live now in squatter barrios of recent erection.

They work as stevedores, fishermen and farm laborers. Few earn the minimum agricultural wage of ₱ 4 per day [₱ 3.91 = $1]. Each morning buses and trucks of the plantation operators converge on the city to load laborers and transport them to their employment, returning them again each night. This group also participates in the "tertiary sector" of the city: cigarette vending, lottery-ticket selling, and hawking of bits of food, miraculous medals, etc. Their actual numbers are unknown and would be most difficult to estimate. Intercensal comparisons show that the population of the chartered city declined from 30 percent to 25 percent of the provincial population between 1948-60, indicating that small farmers were increasing at a somewhat faster rate than the urban poor.

Rural Catalysts

The stimulus to extend and solidify the industrial development of Davao City may very well come from the expanding consumer demand of the rural resettlement communities. The children they are educating can be expected to move into new commercial establishments, such as the city must provide to cater to the needs of this emergent middle class. This kind of development can be expected to reorient at least a part of urban commerce away from the international raw materials markets toward the hinterland, no longer visualized just as a resource base for extractive exports, but increasingly as a source of urban wealth through manufacturing and trade.

If an agrarian middle class is emerging in the resettlement regions of eastern Mindanao, how did it assume a character so different from that of the older farming villages of the Philippines? Our

hypothesis is that it results from autonomous migration which contains the following dimensions of social change:

1. It selects the more highly motivated individuals who possess sufficient assets to finance resettlement.

2. It removes them from the framework of extended family obligations, ceremonial involvements and technical inefficiencies which combine to frustrate self-advancement within the traditional village.

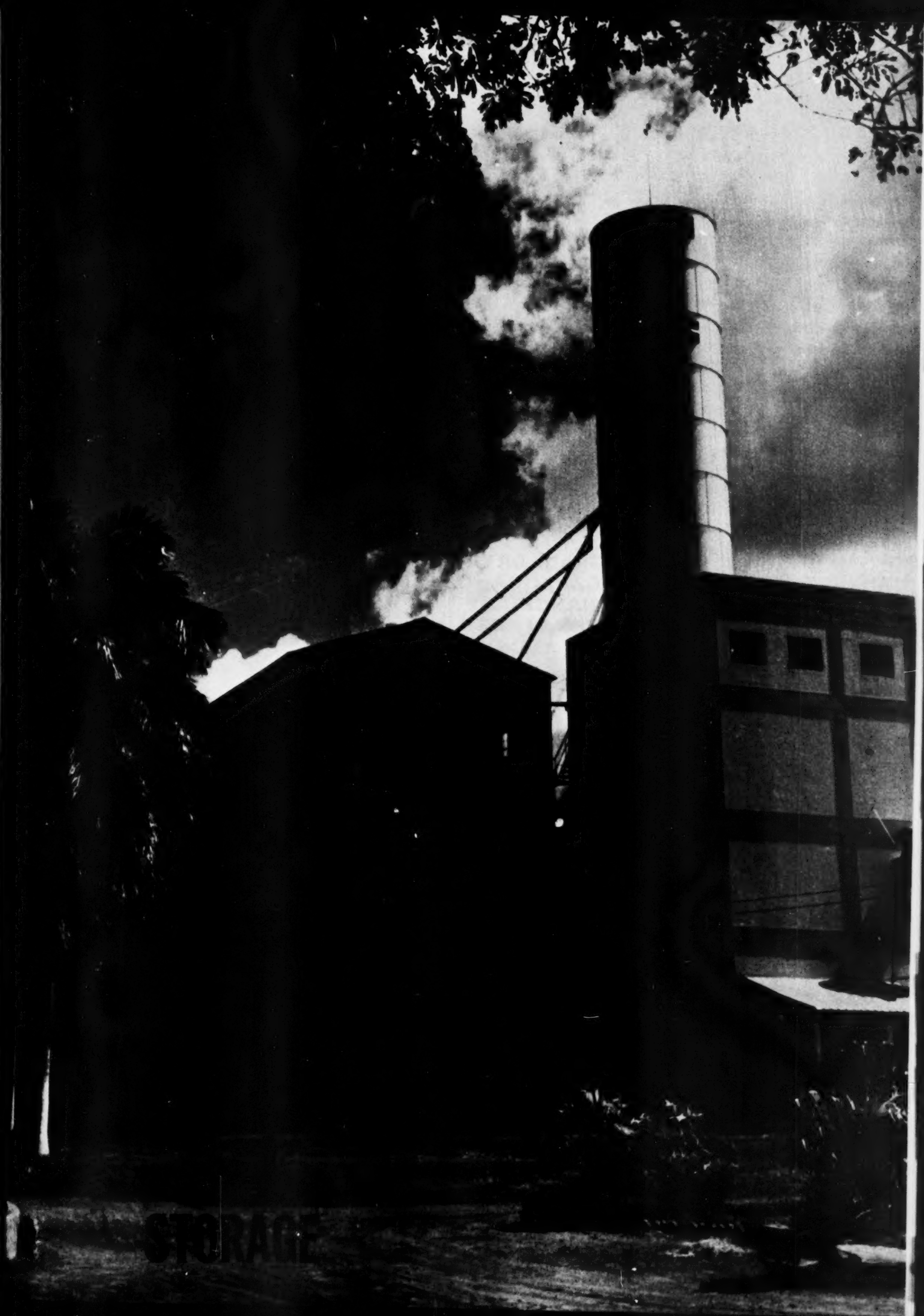
3. It concentrates these "progressive" families in high densities on a frontier where their shared values can be embodied in new activities and community organizations that are economically rational, market-oriented and profit-motivated.

Individuals described by these characteristics, under other circumstances, might seek their fortunes in the cities. The complex of traits which identifies these people may be designated as anticipatory urbanization; rural resettlement communities organized by them are urban in everything but density and location. Such communities suggest an appropriate context for achieving development—a context in which the agrarian consumer purchasing power responds to the demand-generating stimuli of mass media to which villagers are now subjected, bypassing the urban-industrial center as the mechanism for this purpose. This development route requires chiefly that the wealth generated by the abundant resources of tropical agriculture be distributed across a broad population base, rather than being concentrated in the hands of an oligarchy.

The immediate prospects for economic growth through increasing wealth distributed among resettlement communities are positive. In 1968, the Philippines became a rice exporting nation and the Davao settlements are rice producers. The dwarf coconut palm, which has many advantages over its predecessor, is spreading rapidly among small cultivators. A breakthrough in the production of a new cash crop—Cavendish bananas for the Japanese market—has occurred during the present year. In this venture foreign investors are dealing with farmers directly, providing them with technical assistance and a guaranteed market at a fixed price over a ten-year contract period. In the longer run, given that yields per acre will decline if technology and crops remain static (as they have elsewhere generally, following the initial settlements), continuing innovations and improvements must be brought in; we cannot be sure that this will happen, but at least the favorable habit patterns are getting established.

Through the mutual adaptation and evolutionary convergence of small commercial farming enterprises and the city proper as supplier and service center, a permanent pattern of urban growth may emerge. This will lead to the upgrading of the tertiary sector of the urban economy and will create a demand for educated and literate clerical, sales and service personnel. These, in turn, will contribute importantly to the tax base, to the construction of permanent urban homes, and to the improvement of services within the city itself. In time a demand for products essential to support light industry will come. But the leading sector of economic growth will be commerce rather than manufacturing; it will be oriented to the needs of a continually modernizing smallholder agriculture. The initial mechanism in this chain has been, and must continue to be, the institutional flexibility of the rural resettlement community. It is here that the social reconstruction which development requires has begun, and in time it will transform the City of Davao.

[Excerpted from "Secondary Development and Anticipatory Urbanization in Davao, Mindanao," a paper presented at the Annual Meeting, Association for Asian Studies, Boston, 29 March 1969, pp. 4-22. Subsequently published as Institute of Behavioral Science Publication No. 123.]


STORAGE

MODERN GRAIN DRYING AND STORAGE FACILITY
IN NICARAGUA, CAPACITY 6,000 TONS,
FINANCED BY THE WORLD BANK.
(PHOTO: INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT.)

Educ

Errata Sheet

To recipients of "Development Digest, Vol. VII, No. 3". The attached page 88 is to be inserted in place of present page.

The Storage Problem – It's Highly Visible

Lynn Ascher

[The large 1968 foodgrain crop in India focused attention on the immediate need for greater storage capacity.]

The grain storage problem is crucial in India. It is also conspicuous. This was particularly true in the Punjab where a record-breaking 3.4 million tons of foodgrains came to market in a very short space of time. The state's previous high, in 1964-65, was 2.8 million tons. Local markets were nearly buried in wheat during May and June of 1968. [See photo below.]

High-yield Mexican wheat varieties had helped to produce the bumper crop. Also, the Government of India had set a favorable price—the equivalent of $2.75 a bushel—and farmers, fearful that the price would not last, brought their wheat to market as fast as they could. As a result, a large part of the harvest descended on the markets simultaneously. Storage space for such an unexpected torrent did not exist.

The situation was met by shipping grain out as fast as possible, while storing part of the crop in empty buildings, such as schools. All in all, makeshift measures proved sufficient and efficient. Very little wheat was lost through spoilage or careless handling, and the $2.75-a-bushel price was maintained. But the message was clear: much more storage capacity would be needed in such areas as the Punjab.

Until the 1950s, there were virtually no big storage facilities in India. The nation depended on the small farmers to produce the food and to store what they

Mrs. Ascher is with the U.S. Agency for International Development (AID), New Delhi.

produced. A farmer's "storehouse" was a corner of his small home, or a claylined pit in his yard, or perhaps some large baskets or crude bins. Losses to rodents and insects were sizable. If he sold part of his crop to a local merchant, the merchant likely would have a small storage house, or godown, where the grain would be deposited until it was taken into a city for sale.

In the 1950s, large quantities of food aid began arriving from the United States and the need for warehouses and silos quickly became obvious. The Government began importing and manufacturing prefabricated warehouses, setting them up in port cities. Some concrete and steel facilities were built near major ports and large cities. The total capacity of the Government-owned warehouses now exceeds 6 million tons, and 1-1.5 million more will be built by the end of 1969. Cooperatives and state governments have set up an additional capacity of 2.2 million tons.

But by and large, the storage capacity so far built up serves the ports, not the big grain-producing areas. The Punjab, in northern India, is far from any port. Spurred by the 1968 experience, the Government has started construction of silos and warehouses in food-surplus regions, and is introducing improved storage methods on farms and in villages, using inexpensive weather-proof, rodent-proof bins. Arrangements are being made for construction of steel storage containers in Punjab and Haryana States.

[Excerpted from War on Hunger. Washington (D.C.): Office of the War on Hunger, AID, Vol. II, No. 12, December 1968, p. 9.]

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Improved Storage and its Contribution to World Food Supplies

Food and Agriculture Organization of
the United Nations (FAO), Rome

[New or improved agricultural storage facilities can make a significant impact on food supplies in less developed countries. However, the planning and construction of such facilities must take account of the particular marketing patterns, climate, materials availability, transport facilities, etc., in each country.]

The staple food requirements of a country remain more or less constant throughout the year, regardless of price or the availability of other products. The supply of staple foods, on the other hand, is subject to numerous variations, of which the largest is in the seasonal availability of local crops. The role of storage is to absorb these variations in supply, so that produce may be channeled to consumers as they require it and at a reasonable price. This process is inherent in normal trading practice.

From the time a product is harvested until it finally reaches the consumer, somebody (farmer, trader, processing firm, government agent, wholesaler) has to hold it in physical possession. To this extent, storage is inevitable. Where proper storage facilities are inadequate, the effect of a general inability to hold stocks is greatly reduced prices at the time of production, and a very sharp rise later in the season. It is particularly important for the future of food production that harvest prices should not be allowed to fall, as a result of inability to hold stocks, to a level where the livelihood of farmers may be seriously endangered.

Storage Losses

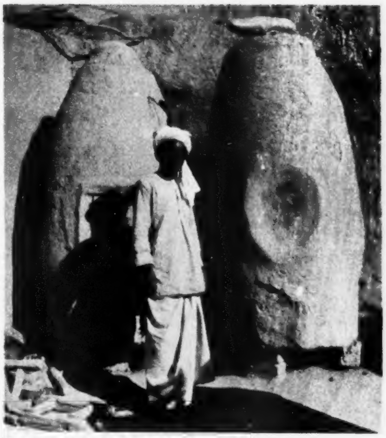
Principal losses in stored food in the tropics and subtropics are caused, in decreasing order of magnitude, by insects, rodents, and fungi, and depredation by birds may occasionally be important locally. It is widely believed that losses from such sources are enormous, but there are very few reliable estimates of the losses that occur in storage, and the few that exist apply to highly specific conditions. A rough global estimate given to FAO in 1946 for storage losses in cereals, pulses and oilseeds was 10 percent a year (5 percent insects, 4 percent rodents, 1 percent fungi). A recent more precise estimate for India is that storage losses of foodgrains amount to 6.6 percent of total production. This estimate is the work of a specialist committee whose example could be followed with advantage by other countries.

Some examples of localized loss measurements are: trials conducted in Northern Nigeria indicated that unthreshed sorghum stored for nine months without being disturbed suffered a mean corrected weight loss due to insects of about 8 percent; in some cases a quarter of the crop was lost. The three common types of rat in Bombay each consume about 26 grams of food per day, equivalent to one sixth of the daily ration of grain per person; mice consume about 26 grams per week.

Preparation of grains for storage by drying can reduce storage losses. Farmers and handlers of grain in the developing countries are generally aware of the need for adequate drying, but related conditions sometimes afford them little incentive to undertake it. Farmers may be required to hand over part of their crop to a landlord as rent or to a merchant in repayment of credit, deriving no benefit from the care taken in drying. Under some government pricing systems, grain is bought by weight without deduction for moisture content. In some situations, farmers lack the financial means to acquire equipment made necessary by adverse harvesting conditions; thus the success of a second rice crop in parts of southeast India is hindered by the need to acquire artificial driers, since harvesting must take place during a wet season.

Storage Construction

In the developing countries most storage for agricultural products has until recently been constructed by hand from simple local materials such as bamboo, straw, mud and clay. Many of these storage structures provide adequate protection from the weather, but they are not well suited to the prevention of rodent damage and insect infestation. Fumigation gives good results only where godowns can be made reasonably airtight. Some examples of traditional storage construction with local materials are shown on the next page.



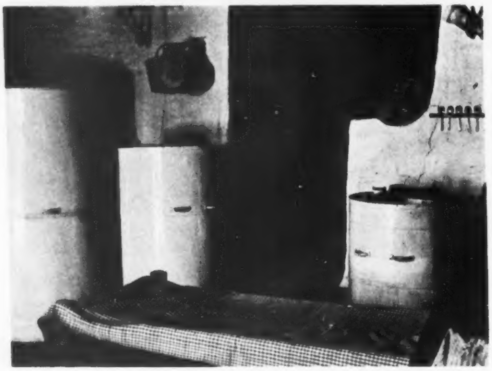
Below: Clay with grass roof, Ivory Coast. (Photo: U.S. Department of Agriculture)

Above: Mud & straw, Pakistan. (Photo: U.S. AID)
Below: Wood & straw, Togo. (Photo:FAO)

Above: Straw, India. (Photo: U.S. AID)

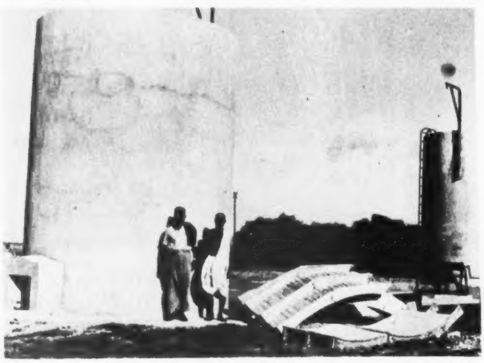
The quality of storage structures made from clay can be improved in several ways. An impermeable vapor barrier in the form of a sheet of polyethylene or vinyl plastic may be placed between double layers of clay. Another method is to mix in about 20 percent of cement to give a soil-cement type of concrete; this can be worked to provide a fairly smooth inner surface, and is useful in farm storage. Wood is well suited to the needs of low-cost storage facilities for foodgrains. When suitably treated, it is resistant to fungus and insect attack and to weathering, although added protection is required to exclude rodents. Among more costly materials, concrete is commonly used, particularly for bulk storage. Rectangular bins are convenient and save space, but the circular bin is more economical to construct. Steel or aluminum also provide good materials for the construction of storage containers. Examples of modern structures of metal, cement and plastic are shown below.

There is growing interest in the use of welded metal mesh for containers used for storage of grain products, as these show promise of low cost construction. Such units require some form of inner liner to contain the particles of grain; materials being tried are the polyvinyl chlorides, polyethylene, fibers such as hessian and nylon, and butyl sheeting. Units of 40-ton capacity made up of a welded mesh with a butyl liner, placed on a concrete slab, have been erected for U.S. $15 per ton.

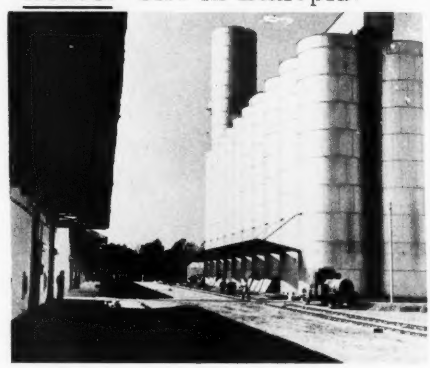


Above: Farm storage bins, India.

Above: Silo in Ethiopia.



Above: Cement, 50 tons, Somalia.



Above: Metal, 10,000 tons, India.

Left: Inflatable plastic, 5,000 tons, Kenya.

(Photos: Top, left, U.S. AID; Top, right, FAO; others, U.S. Department of Agriculture)

Farm Storage

In the developing countries half or more of the basic grains produced do not leave the area of production. There is an economic interest in encouraging and assisting the development of efficient farm storage to cut losses and relieve the burden on other storage. Central storage generally involves direct investment costs, whereas farm storage involves mainly a higher input of local materials and labor. The transport burden is lessened by spreading the demand through the season, which makes possible a fuller utilization of fewer transport vehicles and facilities.

In developing countries many farmers are under severe pressure to sell their marketable surplus as soon as it becomes available. Holding the surplus in store is feasible only if it can become a basis for credit. Supervision by credit agencies of stocks in the hands of small farmers involves obvious difficulties. Some governments have initiated programs to establish local storage where farmers may deposit grain and receive credit against it or use it as collateral, as in India and the Republic of Korea. Others concentrate on direct purchasing at harvest time, and shoulder the consequent heavier burden of central storage and financing.

Distribution and Transit Storage

A large part of a country's immediate food supplies at any one time consists of stock-in-trade, which normally includes consignments in transit (whether actually moving or lying in a warehouse in the process of shipment). Many of these stocks have a rapid rate of turnover. Supplies in the pipeline constitute a first line of reserve in an emergency. This multi-purpose aspect of general warehouses and stores on the usual routes of communication suggests that transit storage should have the first priority in building up planned storage capacity, especially in countries which rely heavily on imports or are especially prone to local harvest failures.

Pipeline stocks may be expected to cover normal supply for perhaps two to six weeks, more in a country dependent on imports. The remaining storage facilities will vary with the degree of self-sufficiency normally attained, and they might have to be adequate to cope with as much as 10 months' supplies.

In planning the location, size, and type of storage facilities in any country or area, it is important to determine just how they will fit into the marketing system and transport routes. Objective study of the prevailing methods and organization of marketing must necessarily precede decisions on storage construction. Only within this framework can realistic estimates be made of the extent to which

new storage will be used; there are many examples of warehouses and silos used little or not at all because they were wrongly located or designed.

Stabilization Storage by Government Agencies

Governments are increasingly accepting the responsibility of ensuring an uninterrupted supply of essential foods for the entire population, which implies having adequate stocks conveniently available at all times. In a predominantly subsistence agriculture, where farmers tend to hold back for their own needs approximately the same quantities each year, a poor harvest can lead to a fairly dramatic fall in the quantities supplied to the market, with consequent increases in price. With poor crop forecasting techniques, this kind of situation may become apparent rather suddenly.

While most government storage programs were initiated to protect consumers against the effects of short supplies, it is now generally recognized that they can also be operated to provide an incentive to producers. The government or its agency builds up its buffer stock by purchasing from farmers at harvest time when market offerings are greatest. In this way it can implement a producer price stabilization program, assuring the farmer of an outlet at a preannounced minimum price.

Access to adequate storage is essential for a government or for a marketing board operating such a program. A beginning should be made with a few economically constructed plants, located where the need is certain, with the locations of others to be determined when experience has indicated the points of maximum advantage. Account should always be taken of existing storage which can be rented.

Although many governments in developing countries appear to be inclined toward direct intervention as a means of achieving price stabilization, it may be that an indirect approach could lead to a more effective use of national resources. The supply of credit on favorable terms to traders, cooperatives, or municipalities for the erection of storage facilities is a possible solution. Governments can also induce private storage by offering incentives to hold stocks, such as are given to Brazilian farmers, or by direct regulation. Hong Kong importers, for example, are obliged to maintain a certain percentage of their import quotas in a reserve stock as a condition of receiving an import license.

[Excerpted from The State of Food and Agriculture 1968. Rome: FAO, 1968, Chapter IV, pp. 116-133 and 139-140.]

MOBILIZING SAVINGS

PERUVIAN WOMAN DEPOSITS SAVINGS IN HER CREDIT UNION.
(PHOTO: U.S. AGENCY FOR INTERNATIONAL
DEVELOPMENT.)

Tax Credit Scheme for the Brazilian Northeast

Albert O. Hirschman

[The large backward area of the Northeast of Brazil is receiving very significant injections of capital for new industries by means of a tax credit scheme mobilizing funds from the more prosperous tax-payers in other parts of the country.]

SUDENE, the federal Development Agency for the Northeast, was created in December 1959 to coordinate the many state and federal agencies operating in that traditionally underdeveloped region of Brazil, and to produce an "integrated, comprehensive" regional development program. By far the most signifigant development to have taken place over the past few years in the Northeast has been an industrial spurt set off by a powerful tax credit provision which made it attractive for private capital from the more developed areas of Brazil to seek out investment opportunities in the Northeast.

Basic Features

The basic principle of "Article 34/18," so called from the numbers of laws establishing the scheme in 1961 and amending it in 1963, is the permission granted to all Brazilian corporate entities to cut their income tax liability in half, provided they invest the saved half in Northeastern projects approved by SUDENE. The income tax rate stands at 30 percent, so that the tax saving can be substantial. As a first step, the tax savings (34/18 funds) are deposited in a blocked account at the Bank of the Northeast of Brazil

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(BNB); these deposits revert to the Federal Treasury if they are not committed to specific, approved projects within the three calendar years following the date of the deposit.

The projects in which the tax savings are invested must be approved by SUDENE as being of interest to the development of the Northeast and they must also be combined with fresh funds. Originally the minimum percentage of fresh funds in a project's equity was set at 50 percent; since mid-1966, the minimum percentage of fresh funds can be set at 25, 50, or 75 percent, depending on the merit of the project as determined by SUDENE according to an elaborate point system.

An important feature of the mechanism is the fact that this matching of tax savings with fresh funds must only occur at the level of the project, not at the level of the individual taxpayer. The individual taxpayer may contribute his deposits to a venture that is organized by a corporate group willing to contribute the needed fresh funds and eager to minimize this contribution by bringing together as much 34/18 money as is permissible. Most ventures are organized by this technique of matching the promoter of the enterprise (and whatever deposits he may own), to the deposits of others. The latter make a purely financial investment, usually in the form of preferential non-voting stock, so that the group providing entrepreneurial and managerial leadership as well as the fresh funds can exercise full control.

In addition to the facilities available under Art. 34/18, new or existing industries can be granted the usual battery of privileges such as income tax exemptions, tax deductions for a number of years, customs duty exemptions on imported equipment and the like. More important than these standard incentives is the availability of bank credit. The BNB stands ready to extend to industrial enterprises loans up to 50 percent of the needed capital assets at a highly advantageous interest rate (12 percent, which compares with commerical bank interest rates of 30 to 40 percent). In this way, projects that are allowed to raise up to 50 percent of their equity through 34/18 deposits, need to supply only 25 percent of total capital assets required through fresh funds (25 percent fresh funds, 25 percent 34/18 deposits, 50 percent BNB loan). In the case of high-merit projects which are eligible for the 75 percent-25 percent equity split, the fresh fund requirement drops from 25 percent to 12.5 percent of total assets, as a result of the facilities offered by the BNB. Some additional pre-financing and financing facilities are available from state banks and financial agencies.

The Trend toward Liberalization

Taxpayers have taken advantage of the deposit privilege in rapidly increasing numbers and amounts, and the need to utilize these deposits effectively has led to a series of legal and administrative changes—all in the direction of liberalizing the rules under which investment can take place. The principal changes are:

1. Originally only firms with 100 percent Brazilian capital were eligible to invoke tax credit; this provision was eliminated in 1963.

2. Originally only industrial enterprises in the Northeast could receive financing under the system; later on, agricultural and telecommunications projects were included.

3. Originally, as noted, 34/18 deposits could only be used up to 50 percent of the project's total equity; this ceiling was raised in 1966 to 75 percent.

4. Originally the 34/18 deposits had to be contributed in the form of equity; a 1964 provision permitted 34/18 deposits to be applied in the form of loan capital, on condition that they be repayable after a minimum grace period of five years.

5. In 1965 use of 34/18 deposits was permitted to service foreign loans contracted by Northeastern firms to the extent of one half of principal and interest.

6. Finally, since September 1966, 34/18 deposits may be used within certain limits to reinforce the working capital of Northeastern firms.

These measures have broadened and facilitated the absorption of 34/18 deposits, which accumulated in steadily increasing amounts at the BNB. A related phenomenon is the staking of claims to these funds by other government entities: in recent months the permission to use 34/18 funds has been extended to the Amazonas region whose development is now to be guided by a new agency, SUDAM, modeled on SUDENE, as well as to certain deserving countrywide programs, such as tourism and reafforestation.

How the System Works

Any project proposing the use of 34/18 funds must be approved by SUDENE and the processing of an application usually takes three to four months. SUDENE's role does not terminate with the approval; it must also authorize the actual disbursements of 34/18

funds from the blocked deposits at the BNB, in accordance with the progress of the project and the simultaneous application of the required fresh funds.

At the beginning, the system was intended as a highly administered one, but the criteria of admission became far more flexible as time went on and deposits mounted. At present, the control of SUDENE is said to be required not so much to influence the direction of industrialization as to avoid two types of malpractice:

1. Firms may overstate the actual cost of the project to be able to finance, through 34/18 funds, a larger share of the total investment than that permitted by law.

2. Firms may announce projects without a serious intention to go ahead, to prevent competing firms from coming in, while continuing to supply the Northeastern market from their existing production facilities in the Center-South.

The number of depositors grew rapidly from 1,909 in 1962 to 20,000 at the end of 1966, as the advantages of the system came to be better appreciated. While still less than 10 percent of the total number of firms filing income tax returns, this number includes many small and medium-size firms as well as almost all large firms.

As of May 1967 about 570 projects had been approved. The disparity between numbers of deposit holders and of projects, raises the question: how does each project collect its 34/18 deposits? There is no problem in the case of a firm such as Willys-Overland which has a project as well as large deposits of its own, and has no need to fill up the allowable portion of its equity with 34/18 funds belonging to outsiders. But in most cases outside funds are required, and to collect them, financial intermediaries have sprung up in large numbers. These are located primarily in the main financial centers of São Paulo and Rio where the large and medium-size depositors are to be found. These brokers try to obtain an exclusive right to certain projects and then go from door to door selling shares to various deposit holders. Lists of deposit holders are available from SUDENE and BNB, so that the business is open and highly competitive. The deposit holders are charged a fee, which is reported to run from 5 to 8 percent. Since the supply of funds has been larger than the demand for them, the brokers frequently have to share the commission with the entrepreneurial firm which put the project together, had it approved, and supplied the fresh funds. Some large firms, such as Volkswagen, are acquiring a highly diversified portfolio of Northeastern stocks. Many firms are facing the decision whether to put together a project of their own or

to invest in someone else's project. The mechanism has an interesting by-product. Several large firms, which have remained closely held corporations in the South, have dozens of partners in the Northeastern subsidiaries. As a result, the corporate structure of firms in the backward area is more modern than that in the Center-South.

In any event, there is now lively interest in investment opportunities in the Northeast among a large and important group of Brazilian investors. The 107 largest holders account for 41 percent of the total amount deposited, and it appears likely that most small deposit holders experience difficulties in investing their funds, in spite of the many brokers who naturally tend to concentrate their activity among the larger and medium-size holders. This is recognized by the BNB and ways of pooling the smaller deposits in investment funds or trusts are now under consideration.

The Lag of Disbursements behind Deposit Accumulations

A lag between availability of funds and disbursement is inevitable, given the complex tasks of preparing new industrial projects, getting them approved by SUDENE and then built, although the threat of their reversion to the Treasury if they are left unutilized makes for an active search for investment opportunities. Actually, a lag of two to three years between the setting up of the system and the large-scale disbursement of funds for the construction of industrial projects is hardly excessive. Nevertheless this lag has been an easy target of criticism. During the last two years of rapid accumulation of 34/18 deposits (1965 and 1966) the BNB was able to utilize only about one half of its new resources while maintaining the other half in idle deposits at the Bank of Brazil. Interestingly, however, this situation changed fundamentally during the first five months of 1967 when the BNB lent out all of the new deposits it received, perhaps because it followed a more aggressive lending policy than before.

Size and Structure of the New Investments

By the end of May 1967 total investment represented by approved industrial projects taking advantage of the Art. 34/18 mechanism amounted to NCr $1,811 million [NCr $1.42 = $1 in 1967]. When this figure is compared to an estimate of the industrial capital stock existing in the Northeast just before the Art. 34/18 mechanism became effective, it is found that 34/18-induced investment will double the industrial capital stock in the Northeast. Year-by-year breakdowns of investment in projects approved and of BNB releases (in 1967 cruzeiros) indicate that the 34/18 mechanism is only starting to get under way. The total investment represented by approved projects grew from NCr $170 million in 1963 to NCr $687 million in

1967—a fourfold increase. BNB releases of funds gained momentum somewhat later: of the total releases up to mid-1967, over half were made in the five-month period since January 1, 1967.

Another important aspect of 34/18 investment is its relationship to the existing industrial structure in the Northeast. The region's industry is weighted toward agricultural product processing and light consumer industries, with sugar refining, oilseed-processing and cotton textiles in particularly prominent roles. The share of capital, intermediate and durable consumer goods in the Northeast's industrial product (about 30 percent), is considerably smaller than it is for Brazil as a whole (about 60 percent). The distribution of investment represented by 34/18 projects, on the other hand, shows the opposite relationship between "modern" and "traditional" goods—it approximates to distribution that exists for Brazil as a whole. The projects subsidized by the 34/18 mechanism are bringing a more diversified and sophisticated industrial structure to the Northeast, with sharply increased representation of industries that are both dynamic and rich in linkage effects.

The 34/18 projects approved up to June 1967 will give rise to 67,800 new jobs, compared to a total industrial work force of 176,800 in 1959. A new job will be created for every NCr $20,580 invested. While this is not an encouraging labor/capital ratio for a region with problems of unemployment, it is the inevitable counterpart of the change in industrial structure toward capital and intermediate goods. The ratio is characteristic of industrial investment in Brazil in general and does not take into account the activities which will spring up to service these 34/18 industries. In these service industries the labor/capital ratio is much higher than in the more basic industries that comprise the 34/18-induced industrialization.

Conclusion

The current industrialization drive, brought under way by the Art. 34/18 mechanism, is by far the most significant economic advance to take place in Brazil's Northeast for many decades; it is probably also the most encouraging growth story to come out of Brazil since the fifties boom. It must be stressed once again that this story is now just barely unfolding: only in the last year or so has spending for industrial construction reached respectable levels and the resulting increase in industrial output will not be clearly visible for at least another year or two. But the institutions to administer the industrial expansion are now in place and are functioning well; a considerable interest in opportunities opening up in the Northeast has been created among the entire Brazilian community; and attitudes about the region's industrial capabilities and prospects are changing rapidly.

The current transitional stage has permitted two types of misunderstandings: on the one hand, the 34/18 program has been criticized for being ineffective, for merely leading to a drain of badly needed liquid funds from the "dynamic center" and the Treasury without really achieving anything in the Northeast, which is said to lack in "absorptive capacity." On the other hand, some voices begin to be heard to the effect that the Northeast has had its industrial boom and that the time has come, in the interests of "balanced development," to direct the resources of the 34/18 system toward agriculture in the Northeast or toward other regions. Both these views are equally wrong: the Northeast is now developing a substantial absorptive capacity for the funds made available through the tax credit system; on the other hand, the fact that a few dozen factories are now being built does not mean that the Northeast or any one Northeastern city is as yet in the throes of an industrial boom that needs to be throttled in the interests of sectoral or geographical balance.

There is little doubt that problems of inadequate agricultural productivity and of defective patterns of land tenure remain as acute as ever in the Northeast. It is unlikely that the 34/18 system can make as fundamental a contribution to agricultural progress as it is making to the expansion of industry, but the increase in industrial activity and employment can make an important indirect contribution to agriculture by enlarging the market for agricultural products and by bringing increasing pressure to substitute food crops and livestock for the traditional, but increasingly uneconomic, sugarcane.

The demonstrated effectiveness of the tax credit mechanism in stimulating industrial development in Northeastern Brazil and the advantages of the device should make this particular policy instrument attractive to "developers" in other lands. To forestall indiscriminate imitation we should note, however, that the success of the scheme has depended on a number of distinctive features of the Brazilian scene:

First, Brazil was already endowed with a highly advanced region which could mobilize not only considerable tax savings for the underdeveloped Northeast, but also entrepreneurial and managerial skills which were perhaps no longer fully employed in the Center-South. Secondly, the Northeast had a strong regional development agency which proved able to supply the flexible administrative controls required by the scheme. Thirdly, Brazil has enough unity as a country that it is not threatened by disruptive conflict in consequence of one inevitable effect of the scheme: the ownership of a large part of the new Northeastern industries by "outsiders" from the Center-South.

It is easy to think of countries with underdeveloped regions or sectors which are not as favorably situated with respect to these three factors as Brazil and where, therefore, the scheme may not be applicable or successful.

[Excerpted from "Industrial Development in the Brazilian Northeast and the Tax Credit Scheme of Article 34/18," The Journal of Development Studies. London: Frank Cass & Co. Ltd., Vol. 5, No. 1, October 1968, pp. 5-27.]

EDITOR'S NOTE:

The author appraises the economics of the tax credit scheme in more detail than is shown here under the following subheadings: 1. Regional Industrial Development: Available vs. Suitable Policy Instruments; 2. Comparison with Tax Exemptions for New Industries; 3. Is the Cost of Capital Zero?; 4. Effects of the System on Efficiency—Comparison with Custom Duties; 5. The Question of Capital Intensity; 6. On the Appropriate Level of the Tax Credit Privilege; 7. On the Phasing Out of the Tax Credit Privilege.

Branch Banking in Thailand

Alek A. Rozental

[Provincial branch banks in Thailand have served largely to channel local funds to the capital city. The central monetary authorities could use the issuance and renewal of licenses for provincial bank branches as a sanction to make them do more local lending, and thus promote the development of local industry and agriculture.]

Relative to its geographic size and gross national product, Thailand is well endowed with respect to branch banking. At least 500 private banking offices dot the Thai landscape. Although these offices are concentrated in urban centers, they do provide banking facilities to most of the country's rural population.

This state of affairs merits attention on several counts. When an extensive network of institutions is financed by sources other than budgetary appropriations and has a reservoir of talent not affiliated with the civil service, it constitutes an important national resource which can and should be brought into the service of developmental planning. A study of the evolution of this form of financial activity provides insights into the ways in which the activities of the unorganized markets can be brought within the framework of organized financial intermediaries. We believe that the right to license new branches is perhaps the most effective instrument of control and credit—potentially, if not actually—at the disposal of central monetary authorities.

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The Extent of Branch Banking

The spread of commercial bank branches in Thailand is a comparatively recent phenomenon. At the end of 1953, there were less than 100 branches. On the average, 35 branch establishments have been set up annually since 1955, and there are approximately 500 branches today. Commercial banks operate branches in every province of the kingdom except Mae Hong Sorn, a remote northwestern area bordering on Burma. There has been a pronounced tendency in recent years to establish branches outside the capital, with the ratio running currently 3:1 in favor of the provinces. Of the 16 locally chartered banks authorized to open branches, however, only nine are actively engaged in the business of branch banking in the provinces.

Branches of Thai commercial banks fall into two major categories. On the one hand, the head office has subsidiary establishments which it fully controls, owns and operates by placing its own paid officials in charge. These are branches as that term is understood in the United States. On the other hand, there are a number of subsidiary establishments which have no exact counterpart in Western banking. In these, the mother institution lends its name, its credit status, and other facilities to a local entrepreneur who, while operating under the formal aegis of the headquarters, is in fact a partner in a local operation. This is the agency arrangement, still an important part of the branch banking scene in Thailand. Generally, the agency manager has greater latitude and more operational discretion than his branch counterpart. He can engage in a greater range of banking functions; he can make more and larger loans than a branch manager; and he shares in the profits of the local branch, usually on a 50-50 basis with the headquarters. At the same time, he is usually required to post a substantial personal bond with the mother institution and is generally required to contribute to the cost of operation, if not to the initial capital, of the local branch.

There is no close correlation between the number of people living in a province and the number of branches operated by Thai commercial banks there. Similarly, there exists no apparent relationship between the overall size of a bank and the number of branches it operates. Thus the Thai Development Bank, whose total assets are about half those of the Siam Commercial Bank, has three times its number of branches. The relative values of branch banking varies greatly among Thai banks. For demand deposits, the proportion held by branches ranges from a low of 2 percent to a high of 89 percent. A similar range obtains with respect to time deposits, from 3 percent for the Thai Military Bank (with only one or two Bangkok branches) to over 90 percent for the Bangkok Bank of Commerce and the Siam City Bank.

For all commercial banks (for which data were available), the ratio of all branch deposits to total deposits hovers around 60 percent. On the asset side, however, branch banking amounts to less than 40 percent for all the banks surveyed. This points to the key issue of branch banking in Thailand relative to development planning. This point emerges with much greater force when the chief assets and liabilities of commercial banks are considered with respect only to those branches which are provincial, i. e., outside the Bangkok-Thonburi area; the proportion of provincial branch deposits to total deposits is about twice that of loans and overdrafts. Commercial banks appear to be less interested in providing accommodation to local business than in collecting deposits from areas outside the capital.

Such sporadic evidence as is available strongly suggests that the ratio of provincial earning assets to a bank's total assets tends to be greater for agencies than for branches. Both the Siam City Bank and the Bangkok Bank of Commerce operate a number of agencies—the former in particular. The tendency for agencies to be somewhat more involved than branches in the provision of local credit is not particularly surprising. The agency manager is given greater latitude with respect to both individual and overall loan limits and, like the local businessmen, tends to be more interested in developing local trade, especially as he has a direct stake in the profits of his branch. (This difference in incentives showed up in numerous field interviews, in which the managers of branches as distinct from agencies could not relate their performance to their rewards in any precise fashion.)

Because the earning assets are substantially below deposits in most subsidiaries operated by commercial banks in the provinces, interest payable by the branch exceeds substantially the interest received on loans, discounts, and overdrafts. Hence provincial operations per se are money-losing propositions. At the same time, Thai commercial banks continue to clamor for the right to establish more and more branches. The inescapable conclusion is that provincial subsidiaries are viewed primarily as a means of collecting resources from the countryside and transferring them to Bangkok.

Information on the ownership of deposits in provincial branches is not readily available, but it would appear that at least 50 percent of fixed deposits, particularly those lodged with the branch for 12 months or longer, can be attributed to persons not resident in the urban center in which the branch is typically located. A substantial proportion of these depositors appear to be net savers; they seldom borrow, and are content to let their savings accumulate while earning 7 percent per annum.

Even though heaquarters seldom formally forbids any particular kind of accommodation, earning assets of branches usually consist predominantly of discounts, financing of shipping bills, and overdrafts. In very few cases will the branch make a loan to a manufacturing enterprise, take advantage of the special rediscounting facilities offered by the Bank of Thailand, or finance a nascent enterprise merely on the basis of good prospects for success rather than land collateral. Only one or two banks show any interest in expanding their activities in new directions, for example, the financing of supervised group credit to farmers. There is little awareness that one of the key functions of a commercial bank is to develop economically the area in which that bank operates.

Implications for Development Planning

This state of affairs is of concern to the development planner for several reasons. Channeling local funds to the capital inhibits the development of new lines of banking activity in the provinces and deprives local businessmen of needed accommodation. Moreover, the concentration of funds in Bangkok may deflect these funds to purposes other than those which would be dictated by development priorities. By helping to drain the countryside of investible funds, branch operations accentuate further the somewhat lopsided economic growth of the country and aggravate the uneven distribution of both regional and personal incomes.

There is serious question whether branch banks in a developing country such as Thailand should be prodded into participating more actively in the developmental process. This prodding may well adopt a dual approach. On the one hand, Thai commercial banks could be encouraged and given incentives to participate more actively in developmental financing on the provincial level. On the other hand, the monetary authorities could consider the use of control instruments to ensure that the provincial subsidiaries of Thai banks behave as true credit and financing institutions rather than as mere branches of a savings bank or as a provincial treasury.

Providing incentives is a complicated task because, by tradition and training, even the parent institutions are ill-equipped to provide the kind of finance which is most desirable for provincial development. It is difficult to conceive of the provincial branches doing much balance sheet, term-lending to manufacturing or other new enterprises. Moreover, developmental finance often connotes acquisition of relatively illiquid paper, which the branches should not be persuaded to hold in large proportion to their total assets. But even after taking into account all qualifications, there seems to be ample opportunity for commercial bank branches to pursue more aggressively business such as agricultural lending and financing the operating capital requirements of local manufactures.

Granting of Permits

One way to prod branch banks into more local development activity would be for the monetary authorities to employ available control instruments. Thai commercial banks are anxious to expand their network of branches for a variety of reasons—not all of them economic. The Minister of Finance grants the permit to open a new branch, usually abiding by the recommendation of the Bank of Thailand. The power to grant permits for new branches is a valuable one and hence, one which should be used with discretion. The regulations which govern the granting of permits are remarkably vague. Whether or not a permit is granted appears to depend upon a host of considerations, including the applicant's former record, his competitive position in the past and present, the current economic situation, prospects of the locality, and so on; but there are no clear-cut rules or criteria which would define these considerations.

The monetary authorities could intimate to the banks that agressive development of local business will, henceforth, become a prime factor in their examination of applications to open branches. Since the future conduct of a branch cannot be determined at the time an application is submitted, it would seem to make sense to grant permits for a limited number of years, the continuance of which is subject to review at the end of the stated period. It would probably be inappropriate to lay down specific rules of good behavior, such as requiring the branch to have at least 60 percent of its deposits lent locally by the end of a five year period. Rather the monetary authorities would reserve the right to review the entire picture five years hence and, in the event that external indices suggested that the branch fell woefully short of desirable performance, they would invite the branch and the headquarters representatives to state their positions. Refusal to renew a permit would be resorted to rarely and only in cases of blatant non-adherence to the guidelines set down by the monetary authorities.

The importance of the suggested control instrument would thus lie not in rigid rules and ruthless elimination of branches at the expiration of their probationary period, but in suasion, guidance, and example—backed, however, by the possibility of a real sanction in extreme cases.

[Excerpted from The Journal of Developing Areas. Macomb (Ill.): Western Illinois University Press, Vol. 3, No. 1, October 1968, pp. 37-50.]

"New System" in Niger

Peggy Anderson

[The rural cooperative system was remodeled in Niger to give the farmer members a greater role in the organization and management of their cooperatives. The result: increased loan repayment rates, greater credit availability, and more efficient marketing.]

Farmers in Africa depend on credit to carry them between harvests and to pay for the seeds, fertilizer, and equipment they need at the start of a new planting season. If agricultural planners expect them to use new means of production that have to be bought, the farmers must have credit extending from the time they buy those materials until the time they sell their produce.

In Niger under the "new system," most responsibilities for operating the national farmers' cooperative—the Union Nigérienne de Crédit et Coopération, or UNCC—have been squarely placed in the hands of the farmers. Peasant participation in credit and marketing operations is both expanding democracy at the local level and giving evidence that the problem of agricultural credit can be solved. Because the farmers themselves are helping to reach the solution, the UNCC experiment suggests that peasant responsibility can be a significant instrument of grassroots change.

Like many of its counterparts in other African countries, the UNCC was operating at a loss and was close to bankruptcy in 1965, when a young Frenchman named Guy Belloncle arrived in Niamey. He

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represented the Institut des Recherches et d'Applications des Méthodes de Développement (IRAM), a private, non-profit international organization based in Paris. Under Belloncle's guidance the new system was introduced in the spring of 1966 in the southern cotton and peanut growing districts of Dosso, Tahoua, Maradi, and Zinder, inhabited by some 42,000 peasant families. In its first 18 months of operation, the system yielded rates of loan repayment as high as 97 to 100 percent in some areas, compared with 12 to 75 percent in regions where the UNCC adhered to the "old system." No autonomous system of rural credit, however enlightened or democratic, can survive unless it can regain its loan capital. As important as the fact of repayment is the way the loans are repaid. In remodeling the UNCC, Belloncle turned over most of the responsibility for credit operations to the peasants themselves.

The Old System

Under the previous system, the UNCC was supposed to perform three functions related to the production of peanuts, Niger's main crop. It furnished agricultural equipment and material to peasant farmers on credit; it bought their peanuts and other produce; and it sold them staple supplies through village stores. Any farmer could sell his peanuts to the UNCC, and those who wished to could join the cooperative for a membership fee of CFAF 500 ($2) that entitled them to receive a dividend after the UNCC had transferred the peanuts to French buyers at the end of the marketing season. Through separate village mutuals the farmers were entitled to apply for loans against a cash collateral amounting to 10 percent of the loan.

The system had flaws in both its credit and marketing operations. The UNCC granted loans on the assumption that a farmer would want to borrow more than once, and his desire to borrow again served as the guarantee of repayment. If a farmer wanted to buy a seeder one season and a supply of fertilizer the next, and knew that he couldn't buy the fertilizer until he paid for the seeder, he would naturally pay for the seeder—or so the UNCC reasoned. In practice, farmers realized that they could get the seeder for nothing if they didn't try to borrow for fertilizer the next time around. Moreover, loans were available only to certain farmers—those who could afford to put up the 10 percent collateral and who had pull in the village. Credit flowed to the more prosperous farmers, who kept power where it "belonged" by voting only their friends into the mutuals, compelling the poorer farmers to borrow elsewhere. Finally, the loans went to individuals, not to the mutual as a whole. The mutuals seldom took it upon themselves to make a defaulting member pay, even though the UNCC might hold up supplies for the whole group until all of its debts were settled. If crops were consequently planted

late or not at all, the farmers blamed the UNCC—an outside organization run mainly, as they saw it, by and for Europeans. These factors led to a high rate of default.

The peasants had little voice in the management of the UNCC. They elected their village officials, but field operations were handled almost entirely by European agents; Nigeriens headed the organization in Niamey and occupied some middle-level positions, but white expatriates were making most of the decisions. The administrators had generally agreed that peasant autonomy was the ultimate goal of the cooperative movement in Niger, but most of them tended to relegate that goal to the distant future—<u>after</u> the UNCC had placed itself on a sound financial and administrative footing.

Cutting the Knot

Belloncle brought to Niger some ideas on peasant participation based on an earlier experience in Senegal, but for the most part he planned how the UNCC should be run by asking the Nigerien peasants themselves. He made extensive use of Nigerien agents and Peace Corps Volunteers to gather the peasants' comments on the old system. From his research came decisions to unify the UNCC's credit and marketing operations and to delegate collective responsibility to the farmers at the village level. The mutuals and cooperatives are now two aspects of a single system. And the dividend of the cooperative has become the guarantee on the loan.

Every farmer in the village is eligible for a UNCC loan—provided all the other farmers assent. No longer does an elitist mutual decide who is worthy of a loan and who is not. The villagers as a group assume responsibility for loans to individuals, and loans and dividends are paid to the village as a unit. If the villagers know that a certain farmer is unlikely to repay his debt, they refuse him permission to borrow; if they agree to a loan which a farmer fails to repay, the whole village takes the loss. When that happens each peasant receives a smaller dividend on the sale of his peanuts, for the UNCC subtracts the sum of defeaulted loans from the total village dividend before disbursing the remainder in a lump sum to the village. The more defaulters, the smaller the dividend.

This arrangement gives the UNCC a firm guarantee of repayment and a foolproof means of collecting. Instead of resting on the assumption that the peasant will want to borrow again, which is only a guess, the guarantee rests on the sale of produce, which is a fact. Defaulting is much less common now because the pressure on a defaulter is exerted by his neighbors in the village, not by a stranger—the UNCC agent.

The foundation of the new system is this linking of loans and dividends. Without it the other innovations would come to nothing; there would be no reason for the villagers to consider the "greater good" as against the interests of individuals. Previously, why shouldn't they have voted "yes" when a friend applied for a loan, since only the UNCC would lose money if he defaulted? With the new linking factor, the question changes: "Shall I help my friend when I am likely to get less money if he doesn't repay?" Because loans are now effectively guaranteed, there is no occasion for the UNCC to withhold supplies from a village while waiting for a defaulter to make payment. The farmers who pay on time get their seed and equipment on time, which improves relations between the villagers and the UNCC and stimulates production as well.

The villagers elect their own mutual officers—a president, a secretary, and a treasurer. Along with farmers in other villages assigned to the same weighing center, they also elect a district president (who, as chef de plot, oversees his district's weighing and purchasing operations), a weigher, and a secretary. From among the district presidents, the farmers choose a president, a secretary, and a treasurer of the regional cooperative.

On the marketing side, every farmer in the village is now a member of the cooperative. No fee is required. Farmers in a group of adjoining villages are assigned to a specific weighing center, eliminating the formerly exploitative role of influential weighers. The farmers are free to use others, but they receive a dividend only if they sell at the designated place. This steps up the pace of buying, which in turn keeps down the interest on the UNCC's bank loans.

The farmers' sales are now recorded with symbols that the farmer can understand, in place of numbers and French words. The symbols represent certain familiar containers in which the peasant brings his peanuts to the scales—a "bokici" or bucket (20 kilos), a "tia" or bowl (two kilos), and a half-tia (one kilo). Pictures of these weights head the columns in the secretary's book; under the pictures, opposite the farmer's name, the secretary enters sticks according to the number of containers the farmer has brought. Thus, for a farmer who brings 83 kilos of peanuts to be weighed, the secretary marks four sticks (||||) in the bucket column, one stick in the tia column, and one stick in the half-tia column. The same information is entered on the farmer's coop card. The farmer is quite able to "read" whether the secretary has made the same entries in both places, and he has a record comprehensible to him that he can use as evidence in any dispute.

In nearly every respect, the new system meets the criticisms that were leveled against the old:

It offers equal opportunity to rich and poor peasants to obtain loans and receive dividends.

It invites the active participation of Nigeriens at the village level and in the higher ranks of administration as well. Peasant farmers choose who shall have loans and assume the responsibility for those who default; they choose their own representatives and officers and decide how much their weigher should be paid and what the dividend should be. They are running the markets and keeping the records.

As a consequence, the role of the UNCC's European agents is changing. The agent's job now is increasingly to train village officers in accounting and administration and to keep an eye on operations, not to exercise tight control. By the end of 1967 two of the UNCC's five regional managers were Nigerien.

In becoming more effective itself, the UNCC is contributing to other development efforts in Niger. In 1967, the UNCC merged with the animation rurale program, whose "rural motivation" function had been ineffective in the past. The combined agency will work closely with the agricultural extension service in strengthening their individual efforts. The Peace Corps Volunteers working with the UNCC are urging farmers to consider leaving their dividends in a lump sum as a village fund for projects benefiting the entire community, such as buying medicines for the infirmary or a pump for the village well.

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Latin S-&-Ls Turn Hoards into Homes

Robert B. Speetles

[Savings and loan associations have grown dramatically in Latin America since 1960. New to this part of the world, they have been very successful in mobilizing formerly idle local capital for construction of much needed middle-income housing.]

Spurred by interest rates that are higher than other financial institutions and by the community character of these associations, 350, 000 Latin American savers in nine countries have placed $178, 468, 000 in the hands of savings and loan associations (S-&-Ls). The program has grown in Latin America from two operating S-&-Ls in 1960 to nearly 100 today.

Though Latin Americans may be partial to group action, mutual associations represent a drastic change in their savings habits and attitudes. Traditionally, ordinary citizens have not been inclined to use banking outlets as a repository for their limited savings. Instead, funds were hoarded and typically were secreted in a mattress or some other hiding place at home. Although this flow of savings capital was potentially available to financial institutions, the banks in the various countries weren't interested in small savings accounts so they didn't encourage such customers.

The people also had a sort of intuitive understanding, even if they didn't know the niceties of high finance, that any funds placed in a local bank usually

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found their way to the money centers in large cities. Little local use was made of the money. What banks did exist were not often locally owned or managed, so that in many cases there was a barrier of strangeness between such financial outlets and the communities which they served.

The savings and loan associations have overcome the barriers of popular alienation by working through local managements. And their boards of directors, who make policy, are also local, respected and recognized leaders, not representatives of some absentee financial interests. Moreover, community interest has been heightened not only by increase in local construction but also by the rise in building trades employment.

Savings and loan systems have brought idle funds into the mainstream of the various national economies—not as an artificial injection of money to bolster government deficits but as newly generated sources of private capital. The funds are not channeled into already well-financed areas of the economy but are used solely in one area where most Latin American economies have a need of new monetary strength. This is the area of popular-priced housing, which even in the most affluent countries has been retarded. One estimate is that this shortage numbers as many as 14 million dwellings throughout Latin America.

The shortage has been particularly acute for the growing middle class. It is this group which, on one hand, earns too much money to be eligible for public housing and, on the other, has been unable to buy or build homes of their own through private financing because of a shortage of lendable funds, limited mortgage periods and high interest charges. The lack of housing has become a highly volatile issue that can and has plagued many governments.

In their lending capacity the associations are making available long-term credit at high, though still reasonable, rates of interest. Statistically, it is estimated that the associations are making home ownership a reality for 40 new families each day. It won't be much longer before this figure climbs to 100 and beyond.

Peruvian Upsurge

One of the best examples of the savings and loan movement is Peru. This system, founded in 1958, has expanded to 20 associations with nearly $51 million in savings. By 1970 the system is expected to include still more associations with a total savings capital of approximately $80 million.

Thousands of individuals, families, and even corporate businesses have funds deposited in the system. One association has established

a pattern of annual growth in savings capital of $3 million. Peruvian acceptance of the savings and loan system is underscored not only by the growth in the size and number of associations but also by their location in both the outlying provincial areas as well as in major cities like Lima.

Individual savers are pleased by the friendliness of the associations and by the convenient business hours. S-&-Ls typically remain open in the afternoon, early evenings, and Saturday morning. The passbooks are handled rapidly and effectively; payment of loans is a simple operation and a saver can say "hello" to the manager of the association, who usually is a long-time resident of the area. The Peruvian system even takes special pains to serve the illiterate. Identification by the simple device of using the saver's thumb print and picture on the savings passbook enables the uneducated but industrious to participate. Commercial banks, on the other hand, have very limited hours and are very rigid and austere in their operation. They are also often plagued by strikes and their service is cumbersome.

The Peruvians have adapted U.S. practices to local conditions and also innovated where necessary. Some of the innovations include mobile savings and loan offices set up in trucks that tour outlying areas to accept savings from Peruvians who are unable to appear in person at the association offices. Savings of businesses are attracted by tax exemptions on deposited funds.

Lotteries, which are legal in Peru, represent a major S-&-L promotional effort. These are carried out in a manner similar to the regular national Latin American lotteries, except that instead of having to buy a ticket to be eligible for a prize, one has merely to open a savings account. Instead of cash, the winner receives a home. Drawings for the savings-and-loan lottery are highly staged events, with the President or some other national figure presiding and pulling the winning name.

All of these incentives, special attractions and individually tailored practices contribute to the savings and loan success story to date. That it is a success story is demonstrated not only by the growth of the system and the increase in the number of associations and savers, but also by the types of savers. The savings and loan associations even attract deposits from commercial banks, underscoring how the system has enlisted growing support from all sectors of the economy despite initial skepticism.

The Peruvian system flourishes without any insurance of accounts. It was felt that since banks never offered such insurance it would not be advisable for savings and loans to do so. The reaction, it was thought, would be negative and savers might be wary of a financial

system that had to insure its deposits when this was never done before.

Contributions to Housing

What have Peruvian associations done with their money? They have financed to date the construction of nearly 13,000 new homes as well as lent additional funds for the modernization of existing homes. Indirect effects include the absorption of from 1,000 to 3,000 steadily employed workers into the country's building trades. The S-&-Ls have also contributed two major innovations in home financing. One has been to reduce drastically the interest rates charged for home purchase loans; the other is to introduce a new amortization plan for paying off such loans.

By American standards, of course, the interest rates charged by Peruvian S-&-Ls for home purchase loans are not low; they range from 9 to 11 percent per year. Rates, however, have been falling and are expected to continue to do so. And even at these levels, the rates represent a tremendous decrease from those charged by other lenders, which in the past have ranged between 20 and 30 percent.

The amortization plan gives the home buyer 20 years to pay off his mortgage loan. This is almost revolutionary in Peru. Before the S-&-Ls introduced the amortization plan, a home buyer was required to make an initial downpayment of 50 percent of a home's purchase price. Most buyers could not meet this requirement, but even if they could, the conditions under which they were given a loan for the other half of the home's cost were prohibitive. In most cases the other 50 percent was payable in 12 months at an interest rate of up to 25 percent. If the loan wasn't paid off, only a year's renewal period was permitted—and that at an even higher interest rate.

Money Stays Local

Funds flowing into the Peruvian savings and loan system have not been siphoned off to the major cities. Associations, wherever they are operated, are run for the benefit of the local residents. Home-purchase loans are made mostly to families with an income of between $130 and $300 a month. People who earn less can apply to the Government Housing Office. Those who earn more do not usually want to be bound by the limitation that a loan cannot be made on a house and lot worth more than $15,000.

[Excerpted from "Latin S&Ls Turn Mattress Hoards into Homes," Columbia Journal of World Business. New York: Graduate School of Business, Columbia University, Vol. III, No. 1, January-February 1968, pp. 70-72.]

Mobilizing Savings Through Credit Unions in Latin America

Harry W. Culbreth

[Credit unions are well suited to the task of attracting the small savings of low-income families in the LDCs and putting them to productive use. They may make a significant contribution to development as they enlarge their capital resources through activities of their national federations.]

Credit unions have made one of the most significant breakthroughs in the process of development: they have proved that "poor people can save money." In 12 Latin American countries, where CUNA and the U.S. Agency for International Development (AID) have given assistance, savings in credit unions had grown to a total of $57 million by December, 1968, and membership reached 745,782. These figures compare with savings of only $7 million and membership of 160,000 in early 1963; since then, there has been a relatively steady growth of 15-20 percent a year. [Note: These figures omit Argentina, reportedly with $60 million in savings and 1,600,000 members.]

Credit unions have proved that the past failure of poor people to save has been largely because they have not been reached by institutions which provide the opportunities and incentives to save. Regardless of how small the individual savings may be, they can add up to significant amounts of money when thousands participate in the savings process.

Credit unions not only meet a basic need of poor people but they also give fresh hope that the less

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developed countries (LDCs) can mobilize domestic savings to meet a larger proportion of their capital requirements. The potential for saving by low income groups is an invaluable resource of every LDC. However, it is of little value until it is converted into an active institutional force benefiting both the individual who saves and the country in which he lives. Credit unions make this conversion—a conversion that requires the integrated services of credit union organizations at local, national and international levels.

Local Credit Unions

The process of saving starts at the local level in the individual credit union. The credit union is organized by low income people who become members of it and pool their savings in it. With these savings the credit union makes loans to its members for "provident and productive purposes." These loans are used to increase savings, since a credit union borrower must agree, as a condition for getting a loan, to increase his savings during the life of the loan by specified deposits in his savings account. This induces borrowers through their own self-help efforts to pull themselves out of debt—a great achievement for a man who has long been burdened by high cost loans from usurious money lenders.

National Credit Union Federations

At an early stage of their operation, local credit unions recognize the need for a national "service" organization. When some 15 to 20 credit unions have been started in an LDC, their leaders usually proceed to organize a credit union Federation at the national level, with membership open to all credit unions in the country. Those who join it finance its operation with dues. The Federation then begins to furnish its member credit unions with such services as the training of local officers and members, bonding, insurance, and most importantly, "interlending."

Interlending. Some credit unions in every country accumulate more in savings than they need at a given time to meet the loan demand of their own members. This usually occurs in urban credit unions. Other credit unions, particularly those in rural areas, have a greater demand for loans than they are able to accumulate in savings. This leads to the opportunity for interlending between credit unions. The Federation places the lending and the borrowing credit unions in touch with each other and thereby helps to keep the funds at work in generating additional savings. This flow can in time help an LDC provide more of the capital it needs for agricultural development from its own domestic resources, thereby reducing its reliance upon foreign capital.

Increasing capital from AID sources. A Federation can raise capital for use by its member credit unions. The Federation in Bolivia, for example, borrowed $300,000 in local currency from AID. It loaned these AID funds to its member credit unions, increasing their capacity to make more loans and thereby to generate more savings. The Federation handled this first loan with such outstanding success that AID made it another loan of $500,000. A similar process is well under way in Honduras where AID made a $500,000 loan in local currency to the Federation in 1964. It was used so effectively that another loan of $1.5 million was made in July 1968.

Centralization of funds within a country. A third service of a Federation in mobilizing savings is its Centralization of Funds and Accounting Program. It was started in December 1967 in Panama where 110 credit unions with savings of $1,250,000 had balances in their individual bank accounts which totaled $110,000. The Federation found that by centralizing these individual accounts into one account in the Chase Manhattan Bank, with the International Business Machine Company providing the necessary accounting assistance, it could gain the use of this "float capital" for loans to its member credit unions. This increased its member credit unions' working capital by approximately 10 percent. The Chase Manhattan Bank also offered to give the Federation overdraft privileges on this centralized account equal to the amount of the float capital, which will increase the credit unions' working capital another 10 percent. Federations in Colombia and Nicaragua have already offered this service to their members, and three more countries are expected to follow suit in 1969.

Guaranteed loans from U.S. credit unions. A fourth service will soon be started whereby Federations in the LDCs will be able to increase the working capital of their member credit unions through loans from credit unions in the U.S. This was not a practical possibility until Congress authorized AID in 1967 to provide 100 percent guarantees on such loans. With the AID guarantee, the U.S. credit unions can obtain as much security on loans to credit unions in the LDCs as they can obtain from investments at home. The first such loan to Latin America was concluded in March, 1969. This opens a potentially very large source of funds, because credit unions in the U.S. had accumulated (by April 1969) over $14 billion in assets.

Mobilizing Capital Worldwide

The Federations might also be able to get special priorities in obtaining loans from the International Cooperative Bank in Basel, Switzerland. This Bank now has assets of $90 million. It is owned and operated by the Cooperative Banks in Germany, Israel, Austria,

and Switzerland and by Cooperative Wholesale Societies in 12 European countries. These societies had a $6 billion volume of business in 1967. The German Bank is the prime mover of this group of organizations; it has assets of more than $1.5 billion. It has helped the International Cooperative Bank make such a success of its operations in Europe that the latter has now expressed interest in making loans to cooperatives in the LDCs.

If international banking institutions such as the World Bank, the Inter-American, the Asian and the African Development Banks realize the potential value of credit unions in mobilizing the savings of poor people, they too may begin to provide loans and technical assistance to Federations, as AID has been doing since 1963 through its contract with CUNA.

Expansion of Loan Operations

The AID loans to the Federations in Bolivia and Honduras have introduced a new function into their operations by permitting the Federations to make loans to other kinds of cooperatives as well as to credit unions. [Note: A credit union is a cooperative specializing in accumulating savings with which it makes loans.] In making these loans the Federation has taken a significant step beyond "character" lending into the field of "collateral" lending. Most credit union loans are secured by the character of the borrower and his cosigners; few credit unions or Federations have experience in handling other types of security. Cooperatives which specialize in such things as the marketing of agricultural products, the distribution of consumer goods and the development of housing are commercial organizations with accumulated assets in buildings, inventories, and accounts receivable. In order to obtain loans from financial institutions they pledge certain of these commercial assets as security. The lending institution makes an appraisal of the assets offered as collateral, and a determination of the feasibility of the use to be made of the loan. It requires a type of technical competence to evaluate commercial risks which the Federations do not need in making "character" loans within their own credit unions.

The Federations in Bolivia and Honduras have already obtained the part-time services of technicians who have helped them make a few commercial loans. But if they or other Federations go into the field of handling commercial credit for cooperatives, they will need to add technicians to their staffs who are as competent to analyze commercial loans as their present staffs are competent to evaluate character loans.

Such an expansion beyond character to commercial lending has occurred in Peru. In that country the Federation helped to set up a

Central Credit Union in 1961 as an affiliated organization. Rather than provide an "interlending" service, as Federations have done elsewhere, the Central accepted deposits from its member credit unions and made loans directly to them out of its own assets. In 1965, the Central opened its membership to other types of cooperatives. Since then it has been making commercial loans to cooperatives that now account for 20 percent of its portfolio.

At first, all of the Central's funds came from credit unions. In 1963, before it had accepted other cooperatives as members, the Inter-American Development Bank (IDB) made it a dollar loan of $1 million for home improvement, sanitation, and irrigation purposes. This amount was loaned only to credit unions. The Central has recently taken steps to become a full-fledged cooperative bank. It will try to raise additional funds from its member credit unions and cooperatives. It may also try to borrow from AID or the IDB. In either case the percentage of commercial loans to its cooperative members will probably increase.

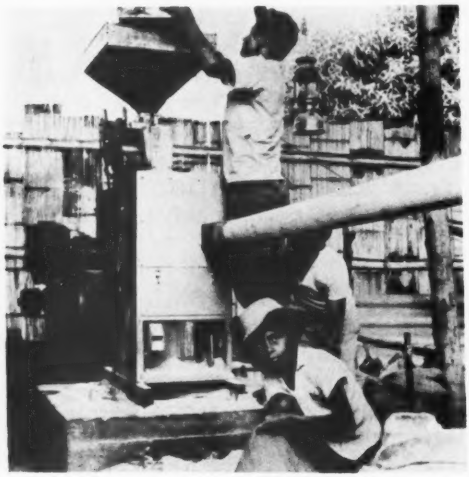
In three other countries—Ecuador, Argentina, and Chile—cooperative banks with staffs fully competent to analyze commercial assets have been established to make commercial loans to cooperatives.

Ecuador is the only country in which a Federation and a cooperative bank have developed working relationships which might serve as a model for other countries. Both have received their basic funds from AID; with this assistance to the Federation, starting in 1963, its credit unions made enough progress in mobilizing savings that they were able to take 80 percent of the Cooperative Bank's membership stock when it was established in 1965. Other cooperatives took the remaining 20 percent. AID then loaned the bank $1.2 million for relending to cooperatives and to credit unions.

Financing Agriculture

The Federation in Ecuador has also been working since 1964 on the development of an experimental program of Directed Agricultural Production Credit (DAPC). The Cooperative Bank has made loans to the participating credit unions. This program was designed to bring small subsistence farmers out of their historic isolation, transforming them into productive units in the agricultural development of their country. Rural credit unions started by first getting these farmers to save; it was surprising how much money these poor people were able to put aside out of meager incomes. In a relatively short time these credit unions were able to mobilize enough savings to make a few small loans out of their own resources to their farmer members.

After the credit unions had gained some experience in mobilizing savings and making and collecting loans, they were able to obtain matching funds for agricultural production from the Cooperative Bank. Later, the Bank increased its loans up to three times the pooled savings in the credit union. The availability of outside capital on even this low ratio provided a tremendous incentive for farmers of a local community to join a credit union, to build up their own savings, and to borrow for the purpose of increasing their production. The farmer members were also provided a limited amount of technical assistance in production by extensionists from the Federation, funded through AID. It was enough, however, to help them make effective use of their loans in buying seeds, fertilizer, insecticides, and simple hand tools.



Rice thresher bought by Ecuador credit union for its members. (Photo: CUNA)

The results of this experiment have been most encouraging. Twenty-one credit unions borrowed more than $11, 675, 000 through the DAPC program. In two years these credit unions have borrowed more than 90 percent of the $1.2 million which AID loaned to the Cooperative Bank, and in three years they have increased agricultural production approximately 150 percent.

In the DAPC program's efforts to involve small farmers in agricultural production the credit union has provided the vital link between the isolated farmer and the credit which has been made available to him in a national institution, the Cooperative Bank. Interest in the DAPC program in Ecuador has spread throughout Latin America. Federations in El Salvador, Honduras, Costa Rica, Bolivia, and Peru have begun or will soon have programs of this type under way. There is also interest in starting such programs in several of the LDCs in Africa and in Asia.

[Excerpted from "Mobilizing Savings through Credit Unions," an original paper.]

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